Entrepreneurship Development

MBA-401

DIRECTORATE OF DISTANCE EDUCATION

SWAMI VIVEKANAND
SUBHARTI UNIVERSITY
Meerut (National Capital Region Delhi)

Contents

ENTREPRENEURSHIP DEVELOPMENT

Course Code: MBA-401		
Course Credit: 04	Lecture: 03	Tutorial: 01
Course Type:	Generic Elective	
Lectures delivered:	40	

End Semester Examination System

Maximum Marks Allotted	Minimum Pass Marks	Time Allowed
70	28	3 Hours

ontinuous Comprehensive Assessment (CCA) Pattern

Tests	Assignment/ Tutorial/ Presentation/class test	Attendance	Total
15	5	10	30

Course Objective:

The purpose of the course is that the students acquire necessary knowledge and skills required for organizing and carrying out entrepreneurial activities, to develop the ability of analysing and understanding business situations in which entrepreneurs act and to master the knowledge necessary to plan entrepreneurial activities. The objective of the course is, further on, that the students develop the ability of analysing various aspects of entrepreneurship – especially of taking over the risk, and the specificities as well as the pattern of entrepreneurship development and, finally, to contribute to their entrepreneurial and managerial potentials.

UNIT	Course Content	Hours
I	Meaning, Definition and concept of Enterprise, Entrepreneurship and Entrepreneurship Development, Evolution of Entrepreneurship, Theories of Entrepreneurship. Characteristics and Skills of Entrepreneurship, Concepts of Intrapreneurship, Entrepreneur v/s Intrapreneur, Entrepreneur Vs. Entrepreneurship, Entrepreneur Vs. Manager, Role of Entrepreneurship in Economic Development, Factors affecting Entrepreneurship, Problems of Entrepreneurship	8
II	Meaning and concept of Entrepreneurial Competency, Developing Entrepreneurial Competencies, Entrepreneurial Culture, Entrepreneurial Mobility, Factors affecting Entrepreneurial mobility, Types of Entrepreneurial mobility. Entrepreneurial Motivation: Meaning and concept of Motivation, Motivation theories, Entrepreneurship Development Program: Needs and Objectives of EDPs, Phases of EDPs, Evaluation of EDPs	8
III	Role of Government in promoting Entrepreneurship, MSME policy in India, Agencies for Policy Formulation and Implementation: District Industries Centers (DIC), Small Industries Service Institute (SISI), Entrepreneurship Development	8

	Institute of India (EDII), National Institute of Entrepreneurship & Small Business Development (NIESBUD), National Entrepreneurship Development Board (NEDB), Financial Support System: Forms of Financial support, Long term and Short term financial support, Sources of Financial support, Development Financial Institutions, Investment Institutions	
IV	Women Entrepreneurship: Meaning, Characteristic features, Problems of Women Entrepreneurship in India, Developing Women Entrepreneurship in India, Concept of Social Enterprise and Social Entrepreneurship, Social Entrepreneurs, Sustainability Issues in Social Entrepreneurship, Rural Entrepreneurship, Family Business Entrepreneurship, Concepts of Entrepreneurship Failure, Issues of Entrepreneurial failure, Fading of Entrepreneurial success among once leading corporate groups, Entrepreneurial resurgence, Reasons of Entrepreneurial Failure, Essentials to Avoid Unsuccessful Entrepreneurship.	8
V	Forms of Business Ownership, Issues in selecting forms of ownership, Environmental Analysis, Identifying problems and opportunities, Defining Business Idea, Planning Business Process, Project Management: Concept, Features, Classification of projects, Issues in Project Management, Project Identification, Project Formulation, Project Design and Network Analysis, Project Evaluation, Project Appraisal, Project Report Preparation, Specimen of a Project Report	8
VI	Small Business Plan – Concept, need, use. Business planning overview - Business planning as a change agent - Idea brainstorming session - Understanding your motivations for preparing a plan Writing a Business plan, Risk Assessment, Focus on small business: Sources of financing for small businesses, Financing with equity, Determining personal net worth, Getting equity investment for your business,	

Text and Reference Books

1. Lall &Sahai:Entreprenurship(Excel Books 2 edition)
2. Couger, C- Creativity and Innovation (IPP, 1999)
3. Kakkar D N - Enterpreneurship Development(Wiley Dreamtech)
4. A.K.Rai – Entrepreneurship Development, (Vikas Publishing)
5. R.V. Badi & N.V. Badi - Entrepreneurship (Vrinda Publications, 2nd Edition)
6. Holt - Entrepreneurship : New Venture Creation (Prentice-Hall) 1998. 8. Barringer M J - Entrepreneurship (Prentice-Hall, 1999)
7. Nina Jacob, - Creativity in Organisations (Wheeler, 1998)
8. Entrepreneurial Small Business, Katz J A , Green II R P, McGraw Hill/Irwin, New York, NY, 2008. 3rd Ed.
9. Getting to Plan B, Mullins J and Komisar R, Harvard Business Press, Boston, Massachusetts, 2009.
10. Business Planning: A guide to Business Start-up. By – David Butler. Thompson. Butterworth-Heinemann, MA. 2008. ISBN: 978-81-312-1432-9
11. The Successful business Plan Secret Strategies by Rhonda Abrams PH The business plan in a day by Rhonda Abrams , PH. Business plan preparation - Entrepreneurship Development Institute of India

UNIT-1

INTRODUCTION TO ENTREPRENEURSHIP DEVELOPMENT

(Structure)

1.1 Learning Objectives

After studying the chapter, students will be able to:

- Discuss the importance of entrepreneurship;
- Explain the concepts of entrepreneur and entrepreneurship;
- Discuss the characteristics of an entrepreneur;
- Describe the factors that influence entrepreneurship;
- Explain the concept of intrapreneur;
- Explain the similarities and economic differences between entrepreneur and intrapreneur.

1.2 Introduction

Everyone is aware of the term 'entrepreneurship' which refers to a process by which individuals launch and manage their business and industrial enterprises. Entrepreneurs are the ones who risk and invest their own capital into the business and industrial-ventures.

Notes

The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them. But the fact is that virtually everybody is entrepreneurial in some part of his or her life. Entrepreneurial in terms of self-development (an athlete constantly practicing to improve his/ her performance and stamina), in terms of self-decision making (a man deciding not to marry and devoting the rest of his life in the service of God), in terms of creativity (a housewife using waste material for making a piece of art), risk-taking (a teenage boy trying bungee jumping).

Hence, anyone who exhibits the characteristics of self-development, creativity, self-decision making and risk-taking can be rightly called as a person with entrepreneurial traits. When these traits are exhibited by a person running a business he can rightly be called an entrepreneur. The reverse is also true – a businessman who does not take risks, or does not aim for self-development, is not creative and one who cannot make a decision on his own, cannot be rightly called as an entrepreneur. And in the present competitive world, the latter is thrown out of the business by the market forces over a period of time.

In the previous unit, we dealt with the various classifications and models of entrepreneurship and also discussed about the problems faced by the entrepreneurs in India. This unit will help you to understand the concepts of entrepreneur and intrapreneur. Intrapreneurship is the practice of entrepreneurial skills and approaches by or within a company or at home. The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others.

What is needed in large bureaucratic companies is a strong and healthy risk-taking culture, where risk-taking managers are assured security and rewards. An entrepreneurial culture requires a constant generation of ideas. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.

Investigate any big innovation in an organization and you will find an entrepreneur. "Look back at any great business or invention of just any big company and you will find that an intrapreneur created it," says Gifford Pinchot, who invented the word and popularized the term in his book Intrapreneuring. Though Pinchot invented the term, the concept (of internal entrepreneurial efforts in an organization to alter its status quo, harness energies of talented employees and sponsorship to promising ideas and innovations them) was being relied upon by forward thinking organizations for decades.

1.3 Meaning of Entrepreneurship

The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them. But the fact is that virtually everybody is entrepreneurial in some part of his or her lives. Entrepreneurial in terms of self-development (an athlete constantly practicing to improve his/ her performance and stamina), in terms of self-decision making (a man deciding not to marry and devoting the rest of his life in the service of God), in terms of creativity (a housewife using waste material for making a piece of art), risk-taking (a teenage boy trying bungee jumping).

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Entrepreneurship is the process of creating something new, with value, by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.

Entrepreneurship is often viewed as a function, which involves the exploitation of opportunities, which exist within a market. Such exploitation is most commonly associated with the direction and/or combination of productive inputs. Entrepreneurs usually are considered to bear risk while pursuing opportunities, and often are associated with creative and innovative actions. In addition, entrepreneurs undertake a managerial role in their activities, but routine management of an ongoing operation is not considered to be entrepreneurship. In this sense, entrepreneurial activity is fleeting. An individual may perform an entrepreneurial function in creating an organization, but later is relegated to the role of managing it without performing an entrepreneurial role. In this sense, many small-business owners would not be considered to be entrepreneurs. Finally, individuals within organizations (i.e. non-founders) can be classified as entrepreneurs since they pursue the exploitation of opportunities.

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably, using all the qualities of leadership, decisions making and managerial caliber etc. The term "entrepreneur" is often used interchangeably with "entrepreneurship". Entrepreneurship is a role played by or the task performed by the entrepreneur. The central task of the entrepreneur is to take moderate risk and invest money to earn profits by exploiting an opportunity. For this he must possess far-sightedness to perceive an opportunity so that he can exploit it well in time. Although an entrepreneur has to perform diverse functions yet he must manifest many qualities in himself to be a good entrepreneur.

1.4 Importance of Entrepreneurship

Prosperity of a nation depends on the development of its economy. Every nation has a responsibility to ensure economic development to improve the living standards of the people, eliminate poverty and backwardness. The process of economic development involves improvement in Gross National Product and depends on the utilization of physical natural resources by the human resources to realize the productive potential of the nation. It requires increase in production and level of consumption.

In a labor abundant but capital short economy like India, there is limitation to the government in directly involving itself in increasing productivity considering the severe budgetary constraint for funds and the pressing need for higher investment in the frontiers of social development. Hence, the people have to come forward to engage themselves in productive activities by starting their own industrial unit's livelihood. When more and more persons come forward to start their own enterprises, however small it may be, and run the enterprise, efficiently and effectively, the productivity of the nation will automatically improve. The government implements a number of programmes to induce self-employment and to develop entrepreneurship in the country. Hence, development of entrepreneurship and entrepreneur are sine-qua-non for the economic prosperity of the nation. Following are the reasons why entrepreneurship holds vital role in an economy:

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1. **Creates wealth for nation and for individuals as well:** All individuals who search business opportunities usually; create wealth by entering into entrepreneurship. The wealth created by the same play a considerable role in the development of nation. The business as well as the entrepreneur contributes in some or other way to the economy, may be in the form of products or services or boosting the GDP rates or tax contributions. Their ideas, thoughts, and inventions are also a great help to the nation.
2. **Provides employment to huge mass of people:** People often hold a view that all those who do not get employed anywhere jump into entrepreneurship, a real contrast to this is that 76% of establishments of new business in the year 2003 were due to an aspiration to chase openings. This emphasizes the fact that entrepreneurship is not at all an encumbrance to an economy. What more is that approximately 34 million of fresh employment opportunities were created by entrepreneurs from the period of 1980. This data makes it clear that entrepreneurship heads nation towards better opportunities, which is a significant input to an economy.
3. **Contributed towards research and development system:** Almost 2-3% of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.
4. **It is a challenging opportunity for the people:** Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates. It does not only reward an entrepreneur at financial levels but also on individual level. It provides self-satisfaction to the entrepreneur.
5. **Entrepreneurship provides self-sufficiency:** The entrepreneur not only become self-sufficient but also provide great standards of living to its employees. It provides opportunity to a number of people working in the organization. The basic factors which become a cause of happiness may be liberty, monetary rewards, and the feeling of contentment that one gets after doing the job. Therefore the contribution of entrepreneurs makes the economy an improved place to live in.
6. **Sky-scraping heights of apparent prospect:** The individual gets maximum scope for growth and opportunity if he enters into entrepreneurship. He not only earns, the right term would be he learns while he earns. This is a real motivating factor for any entrepreneur as the knowledge and skills he develops while owning his enterprise are his assets for life time which usually, lacks when a person is under employment. The individual goes through a grooming process when he becomes an entrepreneur. In this way it not only benefits him but also the economy as a whole.

1.5 Concepts: Entrepreneur and Entrepreneurship

The concept of entrepreneurship has evolved for a long time but its popularity has not gained so much for a long while. But through resurrection, the concept has attained so much popularity that after its observation, a firm idea has been grown up about its sudden discovery. Entrepreneurship is one of the four mainstream economic factors, viz., land, labor, capital and entrepreneurship. The word itself has been derived from the French word entrepreneur in the 17th century, which means the person who undertakes the risk of new enterprise. The persons would undertake the work of a contractor and bear the risk of profit or loss. Early references to the entrepreneur can be traced out in the 14th century when the term indicated about tax contractors who paid a fixed sum of money to a government for obtaining the license to collect taxes in their region.

Thereafter, entrepreneurship was a common topic in economic essays in the 18th and 19th centuries. The early French, British and Austrian economists were notable in this respect and wrote impressively about entrepreneurs as the changing agent of progressive economies. A French economist, Richard Cantillon was the first man to be credited with giving the concept of entrepreneurship a central role in economics as described in his publication in 1755. In the opinion of Cantillon, entrepreneurs consciously make decisions about resource allocation. He identified the entrepreneurs as the agents who purchase means of production in order to combine them to produce a product to sell at price that are uncertain at the moment at which he commits himself to his cost.

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Adam Smith interpreted the work "enterpriser" in his famous book, *Wealth of Nation* in 1776 as an individual undertaking the formation of an organization for commercial purposes. In his view, entrepreneurs reacted to economic change, thereby becoming the economic agents who transformed demand into supply. A few decades later from Cantillon, the concept of entrepreneurship has gained transparency. Another French economist, J.B. Say in his book, *A Treatise on Political Economy* originally published in 1803 identified an entrepreneur as a person who possessed certain arts and skills of creating new economic enterprises and who had also an exceptional insight into society's needs and was able to satisfy them. In 1848, the British economist, John Stuart Mill analyzed the necessity of entrepreneurship in private sector.

In the nineteenth century the entrepreneurs were regarded by new names, as captains of industry. They were then the risk-takers, decision-makers and as persons desirous of wealth earning. They would develop new enterprises by means of collection and management of resources.

Some two decades or more from the proclamation of J.S. Mill, an important movement was noticed in Austria. This movement subsequently influenced the 20th century concept of entrepreneurship. Carl Menger in his book, Principles of Economics in 1871 established the subjectivist perspective of economics in which he viewed that economic change does not arise from circumstances but from an individual's awareness and understanding of those circumstances. In his opinion, an entrepreneur is regarded as the change agent who converts the resources into useful goods and services, thus creating the circumstances leading to industrial growth.

In the 19th century entrepreneurs were recognized as the captains of industry, the risk-takers and decision-makers. They were the individuals who desired to acquire wealth and who gathered and managed resources to create new enterprises. The implication of an entrepreneur has changed from captains of industry to an elusive individual who reaped profits at the expense of others. The term 'entrepreneur' was relegated to obscurity in economic literature for several decades and management writers and thinkers focused their attention on factory efficiency and administration.

Another Austrian Economist, Joseph Schumpeter revised the concept entrepreneurship. He was the first who recognized the importance of an entrepreneur as a human agent in economic development. Schumpeter in his series of economic articles and treatises between 1911 and 1950 described entrepreneurship as a force of creative destruction by which the established methods of doing things are destroyed by the creation of a new one. According to him, entrepreneurship is a process and it is essentially a creative activity. The entrepreneurs are the innovators who introduce something new into the economy through new combinations of resources and new methods of commerce. It is his view that such types of innovators are rare in society and they appear on the scene of development periodically.

Max Weber (1864-1920), a German sociologist emphasized his opinion that creative and entrepreneurial initiatives are generated by adopting exogenous beliefs which, in turn, produce three intense efforts in occupational goals and accumulation of productive assets leading to manufacture of goods and services. In his opinion entrepreneurs are influenced by a particular social condition in which they live and society itself shapes the personality of the individuals as entrepreneurs.

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In recent times, as regards entrepreneurial aspect, a few psychological theories have been developed by a number of famous psychologists, like McClelland, Hagen and Kunkel and some sociological theories developed by Thomas Cochran and Frank Young. McClelland stressed the importance of achievement motivation assisting to expose the personality of entrepreneurs and leading to economic and social development. Hagen identified the emergence of a group of creative individual resulting on withdrawal of status in society. Thus it led to the development of entrepreneurs and taking off the process of economic development. Kunkel conceived that the behavioral pattern of individuals is the significant matter for the development. Such a behavioral pattern can be directed by external stimulus. In their theories, Cochran and Young did not lay so much importance of the society in shaping the personality of the entrepreneurs and they suggested that certain factors, viz, agricultural values, social sanctions, role expectation and inter-group relations in society are responsible for emergence of entrepreneurs.

Till the nineteenth century various concepts of entrepreneurship had emerged. Since then in respect of managing the enterprise, the task of management has been recognized as an important matter. For management, the responsibility of entrepreneurs has been delegated to the managers. Now the term entrepreneurship cannot be clearly defined or the entrepreneurs cannot be clearly identified as a particular person. According to modern management experts, entrepreneurship can be considered as a behaviour encompassing an individual's pursuit of opportunity irrespective of the resources controlled.

In view of discussions above, it may be concluded that different researchers have expressed their divergent opinions as regards emergence of entrepreneurship. On analysis of various researches and their results as regards evolution of entrepreneurship, the following matters may be observed:

Entrepreneurship has been recognized in different names at different times in various countries of the world. Some of the different names are risk-taking, decision-making, free thinking, agency of a change, an act of innovation, etc.

CASELET: Kudos to Modern Entrepreneurs

Is the concept of entrepreneurship new to India? At a superficial level it seems to be as old as the Gupta and Chola dynasties, which traded spices with the rest of the world, followed by the Mughals and the Britishers. But during all these eras, entrepreneurship was more about creation and accumulation of wealth in the hands of few. The essence of entrepreneurship is creation of wealth - Yes, not mere accumulation, but rather distribution of wealth. And when it comes to distribution of wealth none of the dynasties and the rulers of the past pass the qualification. In this context, it is only the entrepreneurs of the post-liberalization era who fit the bill. Entrepreneurs of the recent era not only work for their own growth but also for the growth of all those who are associated with them. Narayana Murthy of Infosys is a good example for this. Narayana Murthy not only created wealth (the Infosys) but also distributed the fortune of Infosys to all its members by introducing ESOP (Employee Stock Option Plan) through which he made all its employee as partners in growth and development. He recently retired from the post of CEO after attaining the age of 60 and made way for the younger generation. Hence the essence of entrepreneurship is not creation and accumulation of wealth but distribution of wealth amongst all those who are associated with the business.

Source: Lall.Madhurima, Sahai.Shikha (2008), "Entrepreneurship," Excel Books Pvt.Ltd.

The entrepreneurs have tried to accelerate the economic development by means of establishing their own enterprises. By allocating resources properly, that is, by using various productive factors, they made endeavours to accelerate the pace of development.

The entrepreneurs have been playing the important role sometimes as economic agents and sometimes as innovators. Up to the 19th century, their role was restricted to the sphere of risk-taking, decision-making and economic agency propounded by Cantillon, Adam Smith, J.B. Say and J.S. Mill. But the role of an entrepreneur as innovator was first recognised by Joseph Schumpeter.

1.6 Characteristics of an Entrepreneur

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Entrepreneurs possess the following vital characteristics:

1. **An especially skillful person:** The entrepreneur is recognized as a person having a special skill and at the same time a person providing others for motivation. He may be either a single individual or an individual in a group. Whatever he may be, he possesses that special skill which is not generally found in common man.
2. **An innovator:** He is rightly known as an innovator who engages himself to innovate new production and methods of reconstruction of industries. According to Schumpeter, the main characteristic of an entrepreneur is to innovate something. Through such innovation, the execution and effective use of a creative idea are ensured. Its success brings for commercial achievement and new horizon of economy emerges. varieties of products, explores new market horizons, and introduces new techniques of

   Example: Sasken Communication technologies: HQ at Bangalore has introduced an innovative people policy to attract and retain talent in the organization. Hibernation is one of its policies in which employees after completing four years of service with the organization goes on hibernation i.e. six weeks of paid leave. Apart from hibernation they have two weeks of paternity leave, no time in and time out and a liberal leave policy. All these policies go a long way in creating work-life balance and help in attracting and retaining employees.
3. **Providing completeness to the factors of production:** An entrepreneur procures necessary resources from various sources for the purpose of production and by utilizing them he provides completeness to the factors of production. Moreover, he endeavours to make contact with various markets for his products. He is a risk-taker and functions as a coordinator.
4. **Decision-making person:** The entrepreneur is such a person who is endowed with a power to make a proper decision as regards the establishment of a business, its management, and procurement of different factors, methods of distribution and coordination of various scarce resources. Since he has a strong power of decision-making, he can take decisions on various maters rapidly. His achievement largely depends on the ability of his decision- making.
5. **A man of creative personality:** As the term implies, he is known as an employer who makes optimum utilization of economic resources and thus carries on productive activities. He has a quality of creating something new and as such he is a person of creative personality. For this, he is known as a creative innovator. He creates new ideas, nurtures them in the light of his own experience, knowledge and intellect. Through all such activities, his creative personality and mentality are exposed.
6. **A basic plan-maker:** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator. For this, he is regarded as a pioneer of economic development.
7. **A pioneer of economic development:** An entrepreneur is the owner, employer, producer, market-creator, decision-maker, risk-taker, coordinator, and user of market information, creative individual and innovator.
8. **Dynamic leader:** He provides proper motivation to his workers by means of leadership so that the workers can give their best efforts to the interest of the organisation.
9. **Creator of wealth:** The entrepreneur uses various resources for running his products or services are produced. Hence, the entrepreneur creates his personal wealth and at the same time he helps to increase social wealth, because new wealth is created due to increase in demand for product or services. As such, creation of wealth is one of the basic features of an entrepreneur.

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10. **Self-confident and ambitious:** In the opinion of John Hornaday, one of the important features of an entrepreneur is that he should be self-confident as well as ambitious. Self- confident is regarded as one of the remarkable characteristic features for his success. This self-confidence leads him to face any situation boldly. Self-confidence relates to harmonize between word and work. Similarly, he should always have in himself, high ambition.

11. **Risk-bearer:** It is needless to say that an entrepreneur has to bear the various risks concerning the enterprise. Without risk bearing, his enterprise activities cannot be conducted. The capacity of an entrepreneur to bear the risks is his inherent feature. He has to bear always the risks in case of production of any new product or service. There are various types of risks to be borne by him. These are risks associated with procurement of raw materials and capital and marketing of goods, etc. this risk bearing is the prerequisite to his success. This is the part and parcel of his daily activities.

12. **Adventurer:** After thinking over various matters, an entrepreneur undertakes his venture and after evaluating pros and cons of all the matters, he selects the most suitable one. While making selection, he requires to be a bit adventurer. This quality is such an outlook, which leads him to accept the challenge in various adverse situations.

1.7 Factors Influencing Entrepreneurship

Following are the various factors that influence entrepreneurship:

1. **Educational:** There is a need to have drastic changes in educational pattern to make it more relevant to the needs of the time, economic, social and political environment. More and more young minds should be trained to create avenues for self-employment. Designing a suitable programme of entrepreneurial education and introduction of entrepreneurship, as a subject for study even at the school level to make the young minds realize the importance of entrepreneurship are the need of the hour.

2. **Legal:** The law must protect the weak till the time they need it. Entrepreneurs in small sectors have limited resources and cannot compete with large-scale manufactures. Reservation of certain items of products for exclusive production in small sector is one such legal measure to protect the interests for small-scale entrepreneurs.

3. **Infrastructure:** Land and factory sheds at concessional rates, adequate supply of power, water, coal and other sources of energy, transport facilities, availability of wagons, supply of raw materials and other physical facilities should be provided by the Government to facilitate setting up of new enterprise.

4. **Institutional:** Entrepreneurs need advice on the lines of manufacture, which may be suitable, sources of raw materials, finance and other facilities like technical know-how, tools and equipments, etc. The entrepreneurs also need to know about the opportunities and threats to their business, government policies, developments in international economic scene, technological changes, etc. Institutions have to be established to keep the entrepreneurs informed about all these matters of their interest and also to enable them to present their problems before the authorities in the government.

5. **Financial:** The needs for fixed and working capital should be adequately needed; if the new enterprises are to serve and grow. The lack of financial resources deters potential entrepreneurs to start new ventures. The problems become more acute in the capital short developing countries where the business and industry how to put up with underdeveloped capital market. The governments, in these countries should see that the capital market is developed with newer and innovative capital market instruments and strong financial institutions.

Notes

6. **Procedural:** The bureaucratic procedure of government offices, industries departments and financial institutions is a great hindrance to the growth of new enterprises. The entrepreneurs have to run to different jobs; and complete a number of offices in government for different jobs; and complete a number of formalities prescribe) by several laws, rules and regulations. It would be better for the potential and existing entrepreneur, if the number of procedural and legal restrictions of the entrepreneurs is reduced and an administrative mechanism is developed to look after all the needs and requirement the entrepreneurs.
7. **Communicational:** The information gap pushes many entrepreneurial ventures towards extinction. Unless an entrepreneur known about the market potentials, competition in the market, technological and other developments, the entrepreneurs is not likely to succeed in the venture. The government departments, organizations of entrepreneurs, financial institutions and business consultants have a role to play in this regard. It is very important for an entrepreneur to succeed.
8. **Information technology and communication:** Modern technology such as Information Technology has entered every walk of human life. Faster mode of communication through email, networking, web technologies have revolutionized the industrial scene with the fast and up to date information at different levels of management, the management processes also have gone considerable changes in decision making and implementation.
9. **Rapid Changes:** IT and communication revolution, the networking within the industry and outside the industry has increased many fold. The exchange of information and availability of resources is bringing changes in the industry faster than ever before in the history.
10. **Large size:** There is considerable increase in automation and introduction of computerized production and process controls in industries. The demand for the goods and the geographical reach is bringing large size industries as well as services. The size gets advantage of economies of scale in manufacturing marketing.
11. **R&D Technology:** Companies today are investing lots of money in R&D activities to develop new products and new processes to compete in the global market.
12. **Stakeholders:** The stakeholders of today are more knowledgeable and get up to date information about the industry developments as well as the progress of particular industries were interested. Thus there is awareness by the stakeholder, which gives him closer involvement than ever before.
13. **Globalization:** Now business operates in an open environment, as there is no geographical boundaries exist. So competition has become very intense. To survive in today's market company has to be very competitive in terms of quality, price and delivery.

CASE STUDY: The Rise and Fall of Ramalinga Raju

The Rise and Fall of Ramalinga Raju Abstract: The case discusses the rise and subsequent fall of one of the visionary leaders in the Indian IT sector, Ramalinga Raju (Raju). US-educated Raju founded Satyam Computers Services Limited (Satyam) and under his leadership, the company grew to become one of the leading IT services companies in the world. In an announcement that surprised the IT and investor communities both in India and across the world, Raju confessed to a major accounting fraud that marked his fall, drawing comparisons to Bernard Madoff. The case examines in detail the inception and growth of Satyam, vision and leadership skills of Raju, the problems Satyam faced due to growing competition, the Maytas fiasco and the events leading to confession of accounting fraud by Raju. The case concludes with a discussion on the events that occurred after the confession, and the reasons that led to the fall of Raju.

Notes

Issues

1. Study the inception and growth of Satyam.
2. Analyze the importance of visionary leadership for the growth of a company.
3. Examine the importance of having a strong board and governance structure.
4. Understand the reasons that led to the fall of Raju.
5. Appreciate the importance of ethical leadership.

Contents

Fall from GraceBackground NoteAll is Not Well with RajuRaju's Fall BeginsRaju Confesses to FraudThe Aftermath"Satyam, for all its glitter, was a firm whose owner ran his software company in the manner his forefathers did land deals. It failed to make the jump between the two centuries."

—*Far Eastern Economic Review*, in January 2009

"In many ways, the Satyam scandal is having the same effect in India that the Madoff scandal is having here (in the USA). Mr. Madoff was an important, highly respected figure on Wall Street, just as Mr. Raju was an important, highly respected figure in the Indian business world."

—*Joe Nocera, 3, New York Times*, in January 2009

Fall from Grace

On January 07, 2009, B. Ramalinga Raju (Raju), Founder and Chairman of India's fourth largest IT services company, Satyam Computer Services Limited (Satyam), claimed that the company had been inflating the revenue and profit figures for several years.

He confessed to an accounting fraud that amounted to ` 70 billion. In a letter addressed to the board of directors of the company, he declared that the ` 50 billion of cash balances reported by Satyam for the quarter ending September 30, 2008, did not exist, that the revenues were ` 21.12 billion as against ` 27 billion reported earlier, and the operating margins were only 3% as against the 24% declared by the company earlier.

He wrote that the gap arose due to the difference between actual profits and the profits reported, which kept on growing over the years. In his confession, Raju wrote, "Every attempt made to eliminate the gap failed. As the promoters held a small percentage of equity, the concern was that poor performance would result in the takeover, thereby exposing the gap. It was like riding a tiger, not knowing how to get off without being eaten."

Raju was one of the pioneers in the Indian IT industry. He started Satyam with 20 employees in 1987, when the industry was still at a nascent stage. At that time, Satyam's main objective was to provide software services to large companies based mainly in the US. Over the next two decades, Satyam grew to become the fourth largest IT services company in India with operations in 63 countries and revenues of over US$ 2 billion for the year ending March 31, 2008.

Though the company had been declaring healthy profits and dividends year after year, it found itself unable to maintain the pace of growth in revenues that it had achieved in the early 2000s.

Industry insiders were of the view that Satyam's growth was not matching up to that of the top three companies in the Indian IT industry, namely, Tata Consultancy Services Limited (TCS), Infosys Technologies Limited (Infosys), and Wipro Technologies (Wipro). At the same time, analysts warned that if Satyam did not keep up its growth momentum, it could lose its coveted position to multinational companies like IBM or Accenture that had ventured into

India, or to home-grown companies like HCL Technologies. Analysts blamed the slowdown at Satyam on Raju shifting his focus to his family promoted real estate businesses – Maytas Properties Pvt. Ltd. (Maytas Properties) and Maytas Infrastructure Limited (Maytas Infra). Raju faced severe criticism in mid-December 2008, when Satyam made its intentions of acquiring the two Maytas companies public.

The deal was called off within a few hours due to the opposition from investors and the adverse reaction from the stock markets. Satyam's problems continued and on January 07, 2009, Raju who till then, had been hailed as a visionary, accepted responsibility for committing the biggest corporate fraud in India.

Raju's revelation shocked not only investors, employees, and clients of Satyam but also corporate India as a whole. The repercussions of the fraud were felt not only by the Indian IT industry but also by overseas investors who had invested heavily in the American Depository Receipts (ADRs) issues of major Indian IT companies including Satyam.

India's image as a global outsourcing hub was also badly affected. The international media was taken aback by Raju's shocking revelation. Commenting on Raju, Forbes, in its January 2009 issue wrote, "It was a horrifying turn for a man long considered one of India's self-made success stories - and active philanthropists".

Background Note

Raju was born on September 16, 1954. His father Byrraju Satyanarayana Raju was an agriculturist. Raju did his MBA from Ohio State University and returned to India in 1977. According to him, "I was just back from the US in the late 1970s after completing my business administration and was in two minds on the way forward.

I had all the enthusiasm and passion to do something... of being an entrepreneur. A friend told me about part-time teaching opportunity at the Administrative Staff College of India (ASCI). This really appealed to me. But, in late 1977, over dinner one night, my father told me, 'It is always important to stay focused and to avoid distractions'..."

All is Not Well with Raju

While Raju had been praised over the years for his vision and leadership, which were the driving force for Satyam's success, he also received some adverse media coverage. It was reported that he had taken a loan of ` 5.2 million from the Andhra Pradesh Industrial Development Corporation (APIDC) way back in 1982, to set up Satyam Spinning Mills.

Raju's Fall Begins

On December 16, 2008, Raju announced that Satyam planned to use the cash reserves to acquire two companies - Maytas Infra and Maytas Properties. Maytas Infra was a public, listed infrastructure development company that had been operational for more than two decades.

Maytas Properties was involved in developing residential townships and urban infrastructure. For the six months ended September 30, 2008, Maytas Infra reported revenues of ` 7.37 billion and a net profit of ` 0.37 billion.

Raju Confesses to Fraud

However, before Raju could take a breather, on January 06, 2009, DSP Merrill Lynch announced that it was terminating its advisory agreement with Satyam. In its communication, it said, "We have terminated our advisory engagement with Satyam Computer Services Ltd. for considering various strategic options on January 06, 2009..."

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The Aftermath

After Raju announced that the accounts had been fudged, analysts were able to piece together the real picture behind the abandoned Maytas acquisition. They realized that Maytas' acquisition was an effort to save Satyam, and replace fictitious assets with real ones.

Questions

1. Comment on the ethical part of Ramalinga Raju.
2. How can Satyam to be saved? Comment.
3. Make a plan from your side to save satyam out of the crunch.

Source: Lall.Madhurima, (2009), "Entrepreneurship and Business Plan" Excel Books Pvt. Ltd.

1.8 Entrepreneurial Process

At its simplest what entrepreneurs do, can be viewed as a six-stage procedure:

- They see opportunities where others don't.
- They have a 'vision', a clear understanding of the concept and of what they're trying to do.
- They persuade others of their vision, they can communicate the concept effectively.
- They gather resources to make their vision become a reality (money, people, things).
- They organize these resources to create a new venture, product or market (leadership, teams).
- They constantly change/adapt themselves according to the changing demands of the market.

Identify an Opportunity

According to Timmons (1989), entrepreneurship is about sensing an opportunity where others see chaos, contradiction and confusion.

Identification of an opportunity is the first step towards building and running successful business enterprise. Entrepreneurs identify opportunity where others see obstacles and impossibility. Identification of opportunity at the right time is of utmost importance as it gives "first mover's advantage" and takes an enterprise ahead of others who take time to catch up. The first mover's advantage not only provides product identification and higher market credibility but also provides better profits and faster economies of scale.

Example. Paul Scagnetti, an engineer at Intel came up with the concept of handheld computer aimed at helping people do just one thing – record and plan their fitness and nutrition. The gizmo 'Vivovic Fitness Planner' hit the market successfully.

Entrepreneurs sense opportunities since they are creative and are open to the new ideas, they seek challenges even at the time of smooth running of the operations. [Like Kushagra Bajaj of Bajaj's Hindustan; after coming back from US in 2000 with a master's degree in management, he found a big opportunity in the sugar industry in India. The demand for sugar was on rise and there were 100 sugar mills declared sick out of a total of 553 mills in the sugar industry. He took this problem as an opportunity and took Bajaj Hindustan to the top notch position in 2005, in the process, becoming the leader in sugar industry in India].

Establish a Vision

Merely seeking opportunity is not enough; an entrepreneur further moves to establish a vision – a dream for future which can be achieved only if opportunities are tapped at the right time. He has complete faith in his vision and it is quite clear to him i.e. he can visualize his own optimism. Even if some market forces change, he would readjust his vision to keep his dream viable and fruitful. And believe it, entrepreneurs have big visions, something which others might consider as impossible.

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Example: Steve Jobs and a group of 20 young engineers created the Macintosh Computer without any adult supervision.

Dhirubhai Ambani of Reliance had dreamt that he would put a mobile phone in every individual's hand, and the rest is history. [We all know that today, even vegetable-sellers, farmers, milkmen, gardeners etc. are all carrying mobile]. Dreaming this big in a poverty-stricken country like India needs guts.

Persuade Others

An entrepreneur does not work alone; he understands that multiple skills are required to make business successful. Kathleen Alen, an American academician calls this phase of entrepreneurial process 'forming the foundation team' i.e. an entrepreneur forms a group of individuals who would work together to realize his dream. An entrepreneur prepares a business plan to make the vision and means of achieving the vision clearer to 'the others' who would join the team. These individuals are not just the skilled people who would join in, but also include financiers and even family members who put in their trust in the entrepreneur. Like Narayan Murthy of Infosys was supported by wife for financial and psychological backing and was joined by couple of friends – who together lead to what Infosys is today. These trusted people are still part of Infosys and are still working together for the further growth of business.

Gather Resources

Identifying an opportunity, establishing a vision and persuading others to join is not enough; a business enterprise needs resources to become successful. This is the phase, which can convert an entrepreneur's dream into realty. Although we are presenting this process as it happens step by step, implying that issues pertaining to resources are considered here, the reality is that part of the early evaluation of the concept will inevitably involve a preliminary evaluation of whether it can be properly resourced.

Resources can be considered under four categories:

- Financial
- Operating
- Human
- Information

Create New Venture

Once the entrepreneur has arranged for the resources mentioned above, the next step is the creation/establishment of the new venture and running the business venture successfully while the former task (creation of new venture) requires lot of enthusiasm, persuasion so that he is able to gather optimum resources. The latter task (running the business venture) requires lot of perseverance and passion to believe in self.

Change/Adapt with Time

As change has become the rule of the game in today's business environment the entrepreneur needs to continuously keep the organization upgraded and abreast of changing times. This is not an easy task as it not only involves availability of funds for introducing change but also (which is even more difficult) the adaptability of human resources towards the changed environment.

1.9 Intrapreneurship

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The term 'intrapreneur' emerged in during the seventies. Several senior executives of big corporations left their jobs to start their own small businesses because the top bosses in these corporations were not receptive to innovative ideas. These executives-turned-entrepreneurs achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. These types of entrepreneurs came to be known as 'intrapreneurs'. This kind of brain drain phenomena is not limited to the US, but has spread all over the world. Companies, as a result, have started devising ways and means to stop this outflow of talent, experience and innovation.

The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneurial spark will die. The entrepreneur who starts his own business generally does so because he aspires to run his own show and does not like taking orders from others.

What is needed in large bureaucratic companies is a strong and healthy risk-taking culture, where risk-taking managers are assured security and rewards. An entrepreneurial culture requires a constant generation of ideas. It needs managers who listen and respond to new ideas and are willing to risk their future, a system that rewards managers who may fail but who have generated and experimented with ideas.

Intrapreneuring: Definition

Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results. Intrapreneuring aims at boosting the entrepreneurial spirit within the limits of organization, thus creating an environment to develop.

In-tra-pre-neur a person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation.

"Intrapreneurship is Entrepreneurship practiced by people within established organizations".

Intrapreneurship revolves around the restructuring and reemergence of the firm's capacity to develop innovative skills and new ideas. Intrapreneurship is not just limited to the germination of new ideas, but includes even the implementation of those ideas.

Characteristics of Intrapreneurs

Following are the characteristics of intrapreneurs:

1. Intrapreneurs bridge the gap between inventors and managers. They take new ideas and turn them into profitable realities.
2. They have a vision and the courage to realize it.
3. They can imagine what business prospects will follow from the way customers respond to their innovations.
4. They have the ability to plan necessary steps for actualization of the idea.
5. They have high need for achievement and they take moderate calculated risks.
6. They are dedicated to their work that they shut out other concerns, including their family life.

Reasons for Promoting Intrapreneurs in Organisation

Following could be the reasons for promoting intrapreneurs in organization:

- **Intrapreneurs thrive and vibrate in all organizations (big or small):** Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas. These executives termed as 'entrepreneurs' achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. Companies, as a result, started devising ways and means to stop this outflow of talent, experience and innovation and therefore nested the development of intrapreneurs.

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- **Through their expertise and rich experience in the organization:** Intrapreneurs understand the needs and wants of the customers. They generate innovative ideas from these needs and wants. Intrapreneurs do not just limit their energies to the development of these innovative ideas as they have an insatiable desire to achieve and succeed. They are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself.

Intrapreneurs as Dreamers and Change Agents

Intrapreneurs are the "dreamers who do." In most organizations people are thought to be either dreamers or doers. Both talents are not generally required in one job. But the trouble with telling the doers not to bother about their dreams is that they dream anyway. When they are blocked from implementing dreams of how to help your company they're dreaming dreams of revenge. A mind is meant to imagine and then act. It is a terrible thing to split apart the dreamer and the doer.

Intrapreneurs ask questions such as: "Who would I need to help me with this? How much would it cost? What things have to happen first?" and so forth. They may ask "Could we release this technology - onto the marketplace in product form aimed at such-and-such a customer need? No. If we did that it would immediately - bite into a very important market of one of our competitors who has the ability to respond and before we produced our second generation products there would be a tremendous competitive response.

Change Agents are the most genuine executives those who are progressive and innovative, intolerant of complacency and constantly striving to invent better organization. Change agents possess a commitment level that drives them to enhance core competence and organizational capability. Change agents make all employs both below and above their authority feel a sense of urgency to perform better. Most importantly change agents are the "good consciousness" of the industry or organizations; their management decisions protect people.

Generally a new idea is so ugly that only its mother could love it. Consequently, it is unrealistic to think that people in Marketing will understand a research idea in its early stages well enough to do valid marketing research.

Change agents fight for optimizing management environments by challenging every one below and above the authority. True agents will have a communication system where uncomfortable questions are asked and explored because they know how idea or management decisions are shaped into efficient processes. Change agents raise expectations by seeking hire more capable than they are. Change agents never compromise for their high standards. Great leaders have encouraged the hiring the best in order to be the best.

1.10 Similarities and Economic Differences between Entrepreneur and Intrapreneur

The spirit of entrepreneurship exists in within an organization. Intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture, by operating within the organizational environment. Thus, Intrapreneurs are inside entrepreneurs.

Entrepreneurs are builders of a society and create great influence. Many developing countries owe their success to those entrepreneurs who despite their comfort working in a company jumped out to build an enterprise to give jobs to other people and to help the nation. In India, despite the fate of our economy there are still individuals who, not only pursues their own entrepreneurial interest but helps budding entrepreneurs and encourage the youths to become entrepreneurs.

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Intrapreneurship is the practice of entrepreneurial skills and approaches by or within a company or at home. Employees, perhaps engaged in a special project within a larger firm are supposed to behave as entrepreneurs, even though they have the resources and capabilities of the larger firm to draw upon. Capturing a little of the dynamic nature of entrepreneurial management (trying things until successful, learning from failures, attempting to conserve resources, etc.) is claimed to be quite valuable in otherwise static organizations.

This is the reason, why founders behave differently to his/her successor. In a flourishing business the entrepreneurial spirit is very little or not present to those successors because everything is spoon fed. Unlike the founders who experienced struggles and conflicts.

Economic Differences

The difference between the entrepreneur and the intrapreneur is that an entrepreneur is starting a business while intrapreneur is developing a new product in an already existing business.

There are many definitions of an entrepreneur and the simplest and the most appropriate is one who recognizes opportunities and organizes resources to take advantage of the opportunity.

Example: When a company's growth begins to dwindle, boardroom meetings grow strained and the finger pointing starts.

Corporate vs. Intrapreneurial Culture

Corporate culture is the sum of the values, customs, traditions and meanings that make a company unique. Corporate culture is often called "the character of an organisation" since it embodies the vision of the company's founders. The values of a corporate culture influence the ethical standards within a corporation, as well as managerial behaviour.

Intrapreneurship is a strategy for stimulating innovation by making better use of entrepreneurial talent. When effectively promoted and channeled, intrapreneurship not only fosters innovation, it also helps employees with good ideas to better channel the resources of a corporation to develop more successful products.

CASELET: The Intrapreneur, the New Change Maker

The report revealed that the social intrapreneur think there are many advantages for the corporation when it comes to projects that align societal needs and business value: creating new revenue streams, expanding core capabilities into new areas, fueling innovation, enhancing brand equity, retaining talent, or achieving competitive advantage in new markets.

"The result is not immediately obvious, but it is important to have a presence in these markets," said Orlando Ayala, who led the Microsoft Unlimited Potential initiative that promoted technology affordable for people to low income and is now vice president of emerging markets in the company.

There are other examples of social intrapreneurs:

- Vijay Sharma Shakti project led to Hindustan Unilever to train and support women entrepreneurship in India
- Dan Vermeer, who worked on Coca-Cola Global Water Initiative to develop solutions to water scarcity.

Regarding the support of the League of intrapreneurs, about 100 candidates participated in the competition so far. Only the 15 best submissions were to form the first class of the League

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of Intrapreneurs, becoming a member of the elite World Changemakers. These presentations were also to receive media recognition and press. In addition, candidates were to be presented in a publication as world intrapreneurs with innovative solutions. In this league, the top four were to be featured on the blog of Fast Company, Co.EXIST and receive advice from Accenture Development Partnership to strengthen their work.

Competitive solutions may include those that target:

- **Product innovation:** socially and/or environmentally responsible product development
- **Supply chain:** innovative approaches to enhancing supplier or producer welfare; reduction in social or environmental footprint
- **Human capital:** processes or systems to harness employee talent and skills for corporate change-making.
- **Business models:** new models for reducing the environmental footprint of consumption and increasing social prosperity.

Accenture and Micro World have their own partnership to develop intrapreneurship spirit. Other firms has their own platform with Micro World with the same goal.

Source: http://www.microworld.org/en/news-from-the-field/article/intrapreneur-new-changemaker

Some of the greatest business leaders of the past century made their early mark in business as intrapreneurs. Former General Electric chairman Jack Welch made a name for himself by building GE's engineering plastics business as if he were starting his own company. Lew Lehr, former chairman of 3M, similarly built his career on his intrapreneurial pursuit of 3M's expansion into the healthcare industry.

It is essential to create an elevating and encouraging environment that provides talented and entrepreneurial minded people the freedom to innovate, whilst at the same time supporting them with the resources to quickly bring their innovations to market. For small-to-midsize firms, innovation and speed-to-market are two ways to compete successfully against dominant and well-entrenched companies. Creating, fostering, and sustaining the right environment really are intrapreneurial imperatives.

CASE STUDY: GE the Jack Welch Way

In September 6, 2001, John Francis Welch Jr. (Jack Welch), Chairman and Chief Executive Officer of General Electric Co. (GE), retired after spending 41 years with GE. During the period, he made GE the most valuable company in the world. Analysts felt that, with his innovative, breakthrough leadership style as CEO, Jack Welch transformed GE into a highly productive and efficient company. During Jack Welch's two decades as CEO, GE had grown from a US$13 billion manufacturer of light bulbs and appliances in 1981, into a US$480 billion industrial conglomerate by 2000. Analysts felt that Jack Welch had become a 'deal-making' machine, supervising 993 acquisitions worth US$13 billion and selling 408 businesses for a total of about US$10.6 billion.

Jack Welch was in fact described as 'the most important and influential business leaders of the 20th Century' by some Wall Street analysts and academics alike.

Management experts felt that Jack Welch's reputation as a leader could be attributed to four key qualities; he was an intuitive strategist; he was willing to change the rules if necessary; he was highly competitive; and he was a great communicator.

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The Making of a CEO

Jack Welch graduated in chemistry from the University of Massachusetts and in 1959 got a Ph.D. in chemical engineering from the University of Illinois. In 1960, he started his career at GE as a Junior Engineer.

However, in 1961, Jack Welch decided to quit the US$10,500 job as he was unhappy with the company's bureaucracy. He was offended that he was given a raise of only US$1000, the same amount given to all his colleagues. He had even accepted a job offer from International Minerals and Chemicals in Skokie, Ill. However, Reuben Gutoff, an executive at GE convinced Jack Welch to stay back. Reuben Gutoff promised that he would prevent him from getting entangled in GE red tape and would create a small-company environment with big-company resources for him. This theme of 'small-company environment' with 'big-company resources' came to dominate Jack Welch's own thinking as the leader of GE.

Jack Welch quickly rose to become the head of the plastics division in 1968. He became a group executive for the US$1.5 billion components and materials group in 1973. This included plastics and GE Medical Systems.

In 1981, Jack Welch became GE's youngest CEO ever (Refer Exhibits I & II). His predecessor, Reg Jones said, "We need entrepreneurs who are willing to take well-considered business risks - and at the same time know how to work in harmony with a larger business entity…The intellectual requirements are light-years beyond the requirements of less complex organizations."

The Welch Era at GE: 1981-2001

During the first five years as CEO, Jack Welch emphasized that GE should be No.1 or No.2 in all businesses or get out of them.

He disposed off the businesses with low-growth prospects, like TVs and toaster ovens. He expanded the financial-service provider GE Capital into a powerhouse. He also entered the broadcasting industry with the acquisition of RCA Corp., the owner of NBC TV network.

Jack Welch's Leadership Style

Analysts felt that Jack Welch's profound grasp on GE stemmed from knowing the company and those who worked for it. More than half of his time was devoted to "people issues". Most importantly, he had created something unique at a big company - Informality. The hierarchy that Jack Welch inherited with 29 layers of management was completely changed during his tenure. Everyone, from secretaries, to chauffeurs to factory workers, called him

'Jack'. Everyone could expect - at one time or another - to see him. Analysts felt that Jack Welch gave employees a sense that he knew them. Commenting on the informality at GE, Jack Welch said, "The story about GE that hasn't been told is the value of an informal place. I think it's a big thought..."

Jack Welch - The Strategist

Analysts felt that Jack Welch was focused and analytical. He restructured GE's portfolio from 350 businesses during 1980s down to two-dozen core activities by late 1990s. During his initial years as CEO, he either expanded internally or made acquisitions to position all GE's businesses as either number one or number two in their fields. The planned acquisition of Honeywell, Inc., which didn't materialize, was expected to redefine GE for the years to come...

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Jack Welch – The Leadership Guru

After stepping down as the CEO, Jack Welch became an advisor to William Harrison, CEO, JP Morgan Chase. He also entered into an agreement to become a leadership guru to several other clients. He was also named the special partner at New York investment firm, Clayton, Dubilier & Rice. Jack Welch also authored his autobiography, "Jack: Straight from the Gut", which was at the top of the best-sellers list in 2001. Analysts felt that Jack Welch's influence did not end at GE. Many executives who had worked under Jack Welch went on to head more than a dozen U.S. companies.

Questions

1. Make a classification of jack Welch as a intrapreneur or entrepreneur.
2. Comment on intrapreneurship in an organization.

Source: Lall Madhurima (2009), Entrepreneurship and Business Plan, Excel Books Pvt. Ltd.

Table 1.1. Distinctive Features of Traditional Managers and the Entrepreneur

Features	Managers	Entrepreneur
Primary Motives	Want promotion and traditional corporate rewards. Power-motivated.	Wants freedom, goal oriented Self-reliant, and self-motivated.
Time Orientation	Respond to quotas and Budgets, weekly, monthly, quarterly, annual planning horizons, the next promotion or transfer next step along way.	End goals of 5-10 year growth of business in view as guides. Takes action now to move the
Action	Delegate action. Supervising and reporting take most of energy their work.	Gets hands dirty. May upset employees by suddenly doing
Skills	Professional training. Often business school trained. Abstract analytical tools, people-management, and political skills trained if in technical business.	Knows business intimately. More business acumen than managerial or political skill. Often technically
Courage and Destiny	Sees others in charge of his or her destiny. Can be forceful and ambitious, but may be fearful of others' ability in case of optimism.	Self-confident, optimistic, courageous.
Attention	Primly on events inside corporation.	Primarily on technology and market place.
Risk	Careful	Like moderate risk. Invests heavily, but expects to succeed.
Market Research	Has market studies done to discover needs and guide product conceptualization.	Creates needs. Creates products that often can't be tested with market research-potential customers don't yet understand them. Talks to customers and forms own opinions.
Status	Cares about status symbols. if job is getting done.	Happy sitting on an orange crate
Failure and Mistakes	Strives to avoid mistakes and surprises. Postpones recognising failure.	Deals with mistakes and failures as learning experiences.

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Decisions	Agrees with those in power. Delays decision until he gets a feel of hat bosses want.	Follows private vision. Decisive and action-oriented.
Who they Serve	Please others.	Pleases self and customers.
Attitude Toward the system	Sees system as nurturing and protective, seeks position within it.	May rapidly advance in a system, when frustrated; reject the system and form his or her own.
Problem-solving Style	Works out problems within the system.	Escapes problems in large and formal structures by leaving and starting over his own.
Family History	Family members worked for large organisations.	Entrepreneurial small-business, professional, or agricultural background.

1.11 Role of Entrepreneurship in Economic Development

The entrepreneurship has been identified by many economists as a vital force in the process of industrialisation in particular and economic development in general. Economic development essentially means a change. But, at the same time, it is very difficult to define precisely the pharse economic development'. One should realise that the term economic development does not convey the idea of total development of the society. It only focuses itself on one aspect and one dimension of general development. Economic development can be defined as a move towards even more efficient and differentiated methods of supplying people with the requirements for survival and improvement.

Many a times economic development is interpreted as synonymous with industrialisation because it is viewed by the poor regions as a superior way of life. But economic development cannot be equated with industrialisation. When economic development is anlaysed with the yard stick of extent of industrialisation, it implicitly undermines the importance of primary sector like agriculture. The high dependency ratio of people on the primary sector is not the cause of underdevelopment but the consequence of it. These two sectors are complementary to each other in the development process. Moreover, economic development is much more than industrialisation, it is an upward movement of the' entire social system. Economic development includes increase in productivity, social and economic equalization, improved institutions, and attitudes, and a rationally coordinated system of policy measures, and removal of undesirable conditions and systems that perpetuated a state of underdevelopment.

It appears that economic development involves something more than economic growth and it includes both growth and change. Moreover, economic development is not only a quantitative phenomenon but has qualitative dimensions too.

The criterion of per capita income can be considered as a good indicator of regional variations in economic development. As the economic development is essentially a process the increase in per capita income should not appear as a temporary or short sustained phenomenon. Of course, the increase in per capita income can be considered as the primary criterion for measuring the extent of development in an area. There are other sub-criteria which have to be considered along with the primary criterion. The nature of distribution of income in the society is an integral part of the development. The secondary objectives like level of consumption, level of employment, diversification against concentration of the economy are also important.

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Economic development is not to be considered as an end in itself, but is a means to an end. Economic development is concerned, ultimately, with the achievement of better nourishment, better education, better health, better living conditions and an expanded range of opportunities in work and leisure for the people. Therefore, a rise in real per capita income is a relevant criterion to judge the extent of development in a region as it is a means for the attainment of desired standards in nourishment, education, health, and living conditions.

The entrepreneur is the key to the creation of new enterprises that energise the economy and rejuvenate the established enterprises that make up the economic structure. Entrepreneurs initiate and sustain the process of economic development in the following ways:

1. **Capital formation:** Entrepreneurs mobilise the idle savings of the public through the issues of industrial securities. Investment of public savings in industry results in productive utilisation of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.
2. **Improvement in per capita income:** Entrepreneurs locate and exploit opportunities. They convert the talent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase net national product and per capita income in the country, which are important yardsticks for measuring economic growth.
3. **Improvement in living standards:** Entrepreneurs set up industries which remove scarcity of essential commodities and introduce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offer goods at lower costs and increase variety in consumption.
4. **Economic independence:** Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of hitherto imported products thereby reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and thereby earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.
5. **Backward and forward linkages:** An entrepreneur initiates change which has a chain reaction. Setting up of an enterprise has several backward and forward linkages. For example, the establishment of a steel plant generates several ancillary units and expands the demand for iron ore, coal, etc. These are backward linkages. By increasing the supply of steel, the plant facilitates the growth of machine building, tube making, utensil manufacturing and such other units. Entrepreneurs create an atmosphere of enthusiasm and convey a sense of purpose. They give an organisation its momentum. Entrepreneurial behaviour is critical to the long term vitality of every economy. The practice of entrepreneurship is an important to established firms as it is to new ones.
6. **Generation of Employment:** At the beginning of seventh five year plan the backlog of unemployment was estimated to be around 44 million persons. At present, the number of unemployed in the country is far greater than what it was during 1985. Emphasis on modernisation which usually results in automation, use of high technology, and technology up gradation initiated during 1980s and structural changes introduced by the Government during 1990's are likely to give much rise to capital-intensive rather than labour intensive industry. It is feared that there will be very little additional job opportunities within the fold of organised public and private sectors. Most of the job opportunities in future are likely to be emerging from informal and unorganised sectors of economy. Entrepreneurship development training which helps in strengthening informal and unorganised sector is expected to motivate enterprising people to opt for self employment and entrepreneurial career. It will therefore, help in solving the problem of increasing unemployment to some extent.

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7. **Harnessing Locally Available Resources and Entrepreneurship:** India is considered to be very rich in natural resources. In spite of about five decades of planned development a large number of states have remained economically backward. A few large scale industries started by entrepreneurs from outside the state in an economically backward areas may help as model of pioneering efforts, but ultimately the real strength of industrialisation in backward areas depend upon the involvement of local entrepreneurship in such activities: Increased activities of local entrepreneurs will also result in making. use of abundantly available local resources.
8. **Balanced Regional Growth:** Medium and large scale industries can only be started with huge investment which is either available with well established industrial houses or need to be drawn from public exchequer. Also, promotion of such industries does not help in reducing disparities of income and wealth. On the other hand, an important advantage of small scale enterprises is that they can be started with meager financial 'resources and little or no previous experience or entrepreneurial background.
9. **Reducing Unrest and Social Tension Amongst Youth:** Many problems associated with youth unrest and social tension are rightly considered to be due to youth not being engaged in productive work. In the changing environment where we are faced with the problem of recession in wage employment opportunities, alternative to wage career is the only viable option. The country is required to divert the youth with latent entrepreneurial traits from wage career to self-employment career. Such alternate path through entrepreneurship could help the country in defusing social tension and unrest amongst youth.
10. **Innovations in Enterprises:** Business enterprises need to be innovative for their survival and better performance. It is believed that smaller firms have relatively higher necessity and capability to innovate. The smaller firms do not face the constraints imposed by large investment in existing technology. Thus they are both free and compelled to innovate: The National Science Foundation, an organisation in USA found that small companies produce four time more innovations per research dollar than do bigger companies. Entrepreneurship development programmes are aimed at accelerating the pace of small firms growth in India. Increased number of small firms is expected to result in more innovations and make the Indian industry compete in international market.

Examination Questions

1. "Entrepreneur is a doer not a dreamer". Explain the characteristics of an entrepreneur in the light of this statement.
2. Distinguish between entrepreneurs and managers.
3. "Entrepreneurship is a process of giving birth to an enterprise". Discuss.
4. In the Indian context, explain the role that entrepreneurship has played in the economic development of the country.

1.12 Economic, Social, Psychological and Political Factors

Is the entrepreneur who we have been acquainted with, in the first lesson, a machine that calculates the probabilities of profits? Not at all. He, like everyone of us is very much a part of the society. Therefore, the motivation, the modes of conduct, and the effectiveness of entrepreneurs need to be understood with reference to the general environment in which we live. What does the term 'environment' mean? In any society, the environment includes the economic, social, psychological and political aspect of life. In other words, it is true that an economic activity expansion depends on certain environmental forces that promote or retard the entrepreneurial thinking, behaviour and efforts. In this lesson, we are going to look at such factors that tend to influence entrepreneurship.

The countries of the world are experiencing an unprecedented burst of inventions. Even the underdeveloped countries are making conscious efforts in encouraging research and development. While the developed countries have the record of commercialising the inventions to their fullest advantage, the less developed ones find their innovations either lying idle or flowing out to the more prosperous nations. The proverbial "brain-drain" that is affecting countries, like India is due to absence of the necessary infrastructure to capitalise on the numerous inventions that are taking place. The secret of the success of most developed countries is the presence of a large member of dynamic entrepreneurs who provide the fillip for newer and better inventions. The less developed countries, on the other hand, are confronted by a situation where the entrepreneurs just do not seem to come and the existing tend to leave their are characterised by the scarcity of entrepreneurship. Several inimical factors are affecting the growth of this important factor of production.

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Some societies – notably in the United States, South Korea and many South East Asian Counties like Thailand and Singapore- are bound with entrepreneurs. Others like China and India have fewer entrepreneurs, although these countries recently changed their laws to encourage entrepreneurship. Countries like England, where many companies such as airlines and automobile manufactures used to be operated by the Government, have in recent times turned these firms to the private sector, encouraging entrepreneurship through, new opportunities in private ownership. Other nations, such as Japan, though are bound by strong traditions, have in recent times started favouring entrepreneurship. From above, it can be said that economic and non-economic factors can affect the level of entrepreneurship within any society.

The emergence and development of entrepreneurship is not a spontaneous one but a dependent phenomenon of economic, social, political, psychological factors often nomenclatured as supporting conditions to entrepreneurship development. These conditions may have both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive conditions for the emergence of entrepreneurship, whereas negative influences create inhibiting milieu to the emergence of entrepreneurship.

Various researchers worldover have identified the factors that contribute to the development of entrepreneurship as are summaried below:

	Researcher	**Factors**
1.	Schumpeter	Suitable environment, Institution in grasping the essential facts.
2.	Weber	Protestant Ethics which emerged from the puritansim and which is absent in oriental religious belief system.
3.	Levine	Status mobility system where status is attained through outstanding performance, initiative industriousness, and foresight through self reliance and achievement training.
4.	Hagen	Creative personality. High need achievement need order and need autonomy. Fairly widespread, creative problem solving ability and a tendency to use it. Positive attitudes towards manual and technical labour and the physical world.
5.	Cochran	Attitude towards occupation, the role expectations held by sanctioning groups and the operational requirements of the job.
6.	McClelland	Need for achievement through self-study, goal setting and inter-personal support. Keen interest in situations involving moderate risk, desire for taking personal responsibility, concentrate measures of task performance, anticipation of future possibilities, organisational skills, energetic and/or novel instrumental activity.

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7.	Kilby	Perception of market opportunities, gaining command over scarce resources, and marketing f products. Dealing with public, bureaucratic concessions, licenses, taxes, management of human relations within the firm and with customers and suppliers. Financial and production management technical knowledge (Kilby gives, low priority to need for achievement and moderate risk taking?
8.	Christopher	High demand for product and experience in the lines of business/industry.
9.	Kunkel	Values, attitudes and personality are meaningless variables leading to blind alleys of theory and action.
10.	Nafziger	Perceived challenge to status, migrants, new religious sects and reformed groups.
11.	Staley & Morse	Quality of services in industrial advice, managerial training and industrial research.
12.	Fox, Mines: & Papanek	Economic opportunities and political conditions
13.	Nandy	Supportive community, self-image which gives meaning, value and status to an entrepreneurial career.
14.	Singer	Traditional system of occupational culture which facilitates the process of modernisation, special opportunities, motivation, experience, training or knowledge. Traditional belief and value system which are flexible to allow for reinterpretation with changing conditions.

E nomists agree that the lack of entrepreneurs is not caused by economic conditions alone as was the earlier feeling. It is also due to the whole set of socio-cultural and institutional environment prevailing in the less developed countries. Various environmental factors influencing the entrepreneurship are as follows:

I. Economic Factors

Economic environment exercises the most direct and immediate influence on entrepreneurship. The economic factors that affect the growth of entrepreneurship are the following:

1. **Capital:** Capital is one of the most important perquisites to establish an enterprise. Availability of capital facilitates for the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital is therefore, regarded as lubricant to the process of production. Our accumulated experience suggests that with an increase in capital investment, capital-output ratio also tends to increase. This results in increase in profit which ultimately goes to capital formation. This suggests that as capital supply increases, entrepreneurship also increases. France and Russia exemplify how the lack of capital for industrial pursuits impeded the process of entrepreneurship and an adequate supply of capital promoted it.
2. **Labour:** The quality rather quantity of labour is another factor which influences the emergence of entrepreneurship. Most less developed countries are labour rich nations owing to a dense and even increasing population. But entrepreneurship is encouraged if there is a mobile and flexible labour force. And, the potential advantages of low-cost labour are regulated by the deleterious effects of labour immobility. The considerations of economic and emotional security inhibit labour mobility. Entrepreneurs, therefore, often find difficulty to secure sufficient labour. They are forced to make elaborate and costly, arrangements to recruit the necessary labour. The problem of low-cost immobile labour can be circumvented

by plunging ahead with capital-intensive technologies, as Germany did. It can be dealt by utilizing labour-intensive methods like Japan. By contrast, the disadvantage of high- cost labour can be modified by introduction of labour-saving innovations as was done in US. Thus, it appears that labour problems can be solved more easily than capital can be created.

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3. **Raw Materials:** The necessity of raw materials hardly needs any emphasis for establishing any industrial activity and its influence in the emergence of entrepreneurship. In the absence of raw materials, neither any enterprise can be established nor an entrepreneur can be emerged. Of course, in some cases, technological innovations can compensate for raw material inadequacies. The Japanese case, for example, witnesses that lack of raw matérial clearly does not prevent entrepreneurship from emerging but influenced the direction of entrepreneurship. In fact, the supply of raw materials is not influenced by themselves but becomes influential depending upon other opportunity conditions. The more favourable these conditions are, the more likely is the raw material to have its influence of entrepreneurial emergence.
4. **Market:** The fact remains that the potential of the market constitutes the major determinant of probable rewards from entrepreneurial function. Frankly speaking, if the proof of pudding lies in eating, the proof of all production lies in consumption, i.e., marketing. The size and composition of market both influence entrepreneurship in their own ways. Practically, monopoly in a particular product in a market becomes more influential for entrepreneurship than a competitive market. However, the disadvantage of a competitive market can be cancelled to some extent by improvement in transportation system facilitating the movement of raw material and finished goods, and increasing the demand for producer goods. D.S. Landes holds the opinion that improvement in transportation are more beneficial to heavy industry than to light industry because of their effects on the movement of raw materials. Paul H. Wilken claims that instances of sudden rather than gradual improvement in market potential provide the clearest evidence of the influence of this factor. He refers to Germany and Japan as the prime examples where 'rapid improvement in- market was followed by rapid entrepreneurial appearance. Thus, it appears that whether or not the market is expanding and the rate at which it is expanding are the most significant characteristics of the market for entrepreneurial emergence.
5. **Infrastructure:** Expansion of entrepreneurship presupposes properly developed communication and transportation facilities. It not only helps to enlarge the market, but expand the horizons of business too. Take for instance, the establishment of post and telegraph system and construction of roads and highways in India. It helped considerable entrepreneurial activities which took place in the 1850s. Apart from the above factors, institutions like trade/ business associations, business schools, libraries, etc. also make valuable contribution towards promoting and sustaining entrepreneurship' in the economy. You can gather all the information you want from these bodies. They also act as a forum for communication and joint action. Of late, the importance of business and industry associations have increased tremendously. In the fast changing world of business, entrepreneurs have to move-collectively in order to be more effective and more efficient. They need to constantly check and influence the Government's thinking and decision-making.

II. Social Factors

Social factors can go a long way in encouraging entrepreneurship. In fact it was the highly helpful society that made the industrial revolution a glorious success in Europe. The main components of social environment are as follows:

1. **Caste Factor:** There are certain cultural practices and values in every society which influence the' actions of individuals. These practices and value have evolved over hundred of years.

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For instance, consider the caste system (the varna system) among the Hindus in India. It has divided the population on the basis of caste into four division. The Brahmana (priest), the Kshatriya (warrior), the Vaishya (trade) and the Shudra (artisan): It has also defined limits to the social mobility of individuals. By social mobility' we mean the freedom to move from one caste to another. The caste system does not permit an individual who is born a Shridra to move to a higher caste. Thus, commercial activities were the monopoly of the Vaishyas. Members of the three other Hindu Varnas did not become interested in trade and commence, even when India had extensive commercial inter-relations with many foreign countries. Dominance of certain ethnical groups in entrepreneurship is a global phenomenon. The protestant ethics in the west, the Sammurai in Japan, the trading classes in US and the family business" concerns of France have distinguished themselves as entrepreneurs.

2. **Family background:** This factor includes size of family, type of family and economic status of family. In a study by Hadimani, it has been revealed that Zamindar family helped to gain access to political power and exhibit higher level of entrepreneurship. Background of a family in manufacturing provided a source of industrial entrepreneurship. Occupational and social status of the family influenced mobility. There are certain circumstances where very few people would have to be venturesome. For example in a society where the joint family system is in vogue, those members of joint family who gain wealth by their hard work denied the opportunity to enjoy the fruits of their labour because they have to share their wealth with the other members of the family.

3. **Education:** Education enables one to understand the outside world and equips him with the basic knowledge and skills to deal with day-to-day problems. In any society, the system of education has a significant role to play in inculcating entrepreneurial values.

   In India, the system of education prior to the 20th century was based on religion. In this rigid system, critical and questioning attitudes towards society were discouraged. The caste system and the resultant occupational structure were reinforced by such education. It promoted the idea that business is not a respectable occupation. Later, when the British came to our country, they introduced an education system, just to produce clerks and accountants for the East India Company, The base of such a system, as you can well see, is very anti-entrepreneurial. The unfortunate result of it is that young men and women in our country have developed a taste only for service. Their talents and capabilities have not been made much use of. Rather it has been wasted in performing routine conventional jobs. Our educational methods have not changed much even today. The emphasis is till on preparing students for standard jobs, rather than marking them capable enough to stand on their feet.

4. **Attitude of the Society:** A related aspect to these is the attitude of the society towards entrepreneurship. Certain societies encourage innovations and novelties, and thus approve entrepreneurs' actions and rewards like profits. Certain others do not tolerate changes and in such circumstances, entrepreneurship cannot take root and grow. Similarly, some societies have an inherent dislike for any money-making activity. It is said, that in Russia, in the nineteenth century, the upper classes did not like entrepreneurs. For them, cultivating the land meant a good life. They believed that rand belongs to God and the produce of the land was nothing but god's blessing. Russian folk-tales, proverbs and songs during this period carried the message that making wealth through business was not right.

   Can you think of such examples from your own community or any other that you know of ? If you can, write a few lines here.

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5. **Cultural Value:** Motives impel men to action. Entrepreneurial growth requires proper motives like profit-making, acquisition of prestige and attainment of social status. Ambitious and talented men would take risks and innovate if these motives are strong. The strength of these motives depends upon the culture of the society. If the culture is economically or monetarily oriented, entrepreneurship would be applauded and praised; wealth accumulation as a way of life would be appreciated. In the less developed countries, people are not economically motivated. Monetary incentives have relatively less attraction. People have ample opportunities of attaining social distinction by non-economic pursuits. Men with organisational abilities are, therefore, not c dragged into business. They use their talents for non-economic ends. The absence of proper economic motives is a general characteristic of agrarian societies in which people do not attach great value to business talents, industrial leadership etc.

III. Psychological Factors

Many entrepreneurial theorists have propounded theories of entrepreneurship that concentrate specially upon psychological factors. These are as follows:

1. **Need Achievement:** The most important psychological theories of entrepreneurship was put forward in the early) 960s by David McClelland. According to McClelland 'need achievement' is social motive to excel that tends to characterise successful entrepreneurs, especially when reinforced by cultural factors. He found that certain kinds of people, especially those who became entrepreneurs, had this characteristic. Moreover, some societies tend to reproduce a larger percentage of people with high 'need achievement' than other societies. McClelland attributed this to sociological factors. Differences among societies and individuals accounted for 'need achievement' being greater in some societies and less in certain others. Analysing this phenomenon, Paul Wilken has said, "entrepreneurship becomes the link between need achievement and economic growth", the latter being a specifically social factor.

   The theory states that people with high need-achievement are distinctive in several ways. They like to take risks and these risks stimulate them to greater effort. The theory identifies the factors that produce such people. Initially McClelland attributed the role of parents, specially the mother, in mustering her son or daughter to be masterful and self-reliant. Later he put less emphasis on the parent-child relationship and gave more importance to social and cultural factors. He concluded that the 'need achievement' is conditioned more by social and cultural reinforcement rather than by parental influence and such related factors.

2. **Withdrawal of Status Respect:** There are several other researchers who have tried to understand the psychological roots of entrepreneurship. One such individual is Everett Hagen who stresses the-psychological consequences of social change. Hagen says, at some point many social groups experience a radical loss of status. Hagen attributed the withdrawal of status respect of a group to the genesis of entrepreneurship. Giving a brief sketch of history of Japan, he concludes that it developed sooner than any non-western society except Russia due to two historical differences. First, Japan had been free from colonial disruption and secondly, the repeated long continued withdrawal of expected status from important groups (smaurai) in its society drove them to retreatism which caused them to emerge alienated from traditional values with increased creativity. This very fact led them to the technological progress through entrepreneurial roles.

   Hage believs that the initial condition leading to eventual entrepreneurial behaviour is the loss of status by a group. He postulates that four types of events can produce status withdrawal:

   (a) The group may be displaced by force;

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(b) It may have its valued symbols denigrated;

(c) It may drift into a situation of status inconsistency; and

(d) It may not be accepted the expected status on migration in a new society.

He further postulates that withdrawal of status respect would give rise to four possible reactions and create four difference personality types:

(a) ***Retreatist:*** He who continues to work in a society but remains different to his work and position;

(b) ***Ritualist:*** He who adopts a kind of defensive behaviour and acts in the way accepted and approved in his society but no hopes of improving his position;

(c) ***Reformist:*** He is a person who foments a rebellion and attempts to establish a new society; and

(d) ***Innovator:*** He is a creative individual and is likely to be an entrepreneur.

Hagen maintains that once status withdrawal has occurred, the sequences of change in personality formation is set in motion. He refers that status withdrawal takes a long period of time - as much as five or more generations - to result in the emergence of entrepreneurship.

3. **Motives:** Other psychological theories of entrepreneurship stress the motives or goals of the entrepreneur. Cole is of the opinion that besides wealth, entrepreneurs seek power, prestige, security and service to society. Stepanek points particularly to non-monetary aspects such as independence, persons' self-esteem, power and regard of the society.

   On the same subject, Evans distinguishes motive by three kinds of entrepreneurs:

   (a) Managing entrepreneurs whose chief motive is security.

   (b) Innovating entrepreneurs, who are interested only in excitement. (c) Controlling entrepreneurs, who above all otter motives, want power and authority.

   Finally, Rostow has examined intergradational changes in the families of entrepreneurs. He believes that the first generation seeks wealth, the second prestige and the third art and beauty.

4. **Others:** Thomas Begley and David P. Boyd studied in detail the psychological roots of entrepreneurship in the mid 1980s. They came to the conclusion that entrepreneurial attitudes based on psychological considerations have five dimensions:

   (i) First came 'need-achievement' as described by McClelland. In all studies of successful entrepreneurs a high achievement- orientation is invariably present.

   (ii) The second dimension that Begley and Boyd call 'locus of control' This means that the entrepreneur follows the idea that he can control his own life and is not influenced by factors like luck, can control their own lives and are not influenced by external forces.

   (iii) The third dimension is the willingness to take risks. These two researchers have come to the conclusion that entrepreneurs who take moderate risks earn higher returns on their assets than those who take no risks at all or who take extravagant risks.

   (iv) Tolerance is the next dimension of this study. Very few decisions are made with complete information. So all business executives must, have a certain amount of tolerance for ambiguity.

   (v) Finally, here is what psychologists call 'Type A' behaviour. This is nothing but "a chronic, incessant struggle to achieve more and more in less and less of time". Entrepreneurs are characterise by the presence of 'Type A' behaviour in all their endeavours.

IV. Political Factors

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A football player might possess exceptional talent. But, his contribution to the nation and the world of sports would remain negligible, if his performance is restricted to the courtyard of his own house. He needs a football ground to practice on and resources to buy the accessories. He also requires encouragement and support from those in authority so that he could freely play with others and prove his talent. In the same way, an entrepreneur, however creative he/she may be, cannot function without the supportive actions of the Government. It is for the government/society to ensure the availability of required resources for the entrepreneurs and also the accessibility to them. This is because the successful entrepreneur contributes to the well being of the society. Policies relating to various-economic aspects like prices, availability of capital, labour and other inputs, demand structure, taxation, income distribution, etc. affect growth of entrepreneurship to a large extent. Promotive government activities such as incentives and subsidies contribute substantially to entrepreneurial performance. At the same time, Government policies likefor the growth of business enterprises. Above all, a Government that is politically stable and united can effect entrepreneurial activities in a significant manner. Is there a business entrepreneur in your neighbourhood? Try to gather information on his/her views on various government policies, for example, on taxation, finance, labour etc. Also ask him/her about the-opportunities and growth prospects of a business unit. Write down your observations.

My observations are:

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India, all the above mentioned environmental forces have turned in favour of enterprising men and women. There is a visible change for the better in the highly inactive entrepreneurial field in the country. The tight grip of religious and traditional, ideas and practices have begun to loosen. Dogmas (settled opinions) and superstitions have lost the hold they earlier had. It is encouraging the 'non-commercial' classes to consider economic opportunities more sympathetically. As a result, occupational division based on caste system has undergone tremendous traditional activities, social approval etc. have become less important. More important now, are the economic factors such as access to capital and possession of entrepreneurial attitudes and business I knowledge.

Development of infrastructure, changes in government policies in favour of business and industry and of course, rise in demand for products manufactured are some of the other factors that have led the Indian entrepreneurs to look for new business opportunities.

1.13 Summary

The word 'entrepreneur' immediately conjures up images of business tycoons like L.N. Mittal or Bill Gates. While these rich, famous and successful individuals can be inspirational for some, most of us would find it difficult to associate our own lives, personalities or abilities with them. Entrepreneurship is the process of creating something new, with value, by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence. Almost 2-3% of all innovations are due to the entrepreneurs. Without the boom of inventions the world would have been a much dry place to live in. Inventions provide an easier way of getting things done through better and standardized technology.

The individual gets maximum scope for growth and opportunity if he enters into entrepreneurship. He not only earns, the right term would be he learns while he earns. This is a real motivating factor for any entrepreneur as the knowledge and skills he develops while owning his enterprise are his assets for life time which usually, lacks when a person is under employment. Although entrepreneurship is a challenging task but in most of the cases the rewards it gives are much more than what one anticipates. Entrepreneurship is one of the four mainstream economic

factors, viz, land, labor, capital and entrepreneurship. The word itself has been derived from the French word entrepreneur in the 17th century, which means the person who undertakes the risk of new enterprise. The persons would undertake the work of a contractor and bear the risk of profit or loss.

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The entrepreneur is an individual (or team) who identifies the opportunity, gathers the necessary resources, creates and is ultimately responsible for the performance of the organization. Entrepreneurship is the pursuit of a discontinuous opportunity involving the creation of an organization (or sub-organization) with the expectation of creation of value to the participants. Entrepreneur and entrepreneurship are two sides of the same coin; while entrepreneur is an individual who creates and establishes a business, entrepreneurship is the process adapted by entrepreneur to do so. Entrepreneurs have a high need for achievement. They are hardworking, independent, innovative and risk-taking individuals. These characteristics of an entrepreneur especially (high need for achievement and innovative) differentiates him from a normal businessman. The entrepreneurial process consists of following steps: (a) identify an opportunity (b) establish vision (c) persuade others (d) gather resources (e) create a new venture/ product/ market (f) change/adapt with time.

The scope of entrepreneurship is tremendous in a country like India which faces problems of population, unemployment, underemployment and disguised unemployment. The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than go outside. For an entrepreneur to survive in an organization he/she needs to be sponsored and given adequate freedom to implement his ideas. Intrapreneuring means the entrepreneurial activities that acquire organizational sanctions and commitments of resources for the sole objective of innovative results. Several executives with rich experience and expertise in corporations leave their jobs to own small business, because the top management in these corporations were not receptive of their innovative ideas. Intrapreneurs are hungry to see their ideas materialize into business enterprise. Venture capitalists with their wide open eyes welcome them with open arms. And hence the organization not only loses rich experience and expertise but also creates competitors for itself. Intrapreneurs ask questions such as: "Who would I need to help me with this? How much would it cost? What things have to happen first?" and so forth. They may ask "Could we release this technology- onto the marketplace in product form aimed at such-and-such a customer need? Change agents possess a commitment level that drives them to enhance core competence and organizational capability. Change agents make all employs both below and above their authority feel a sense of urgency to perform better. Intrapreneurship is a strategy for stimulating innovation by making better use of entrepreneurial talent. When effectively promoted and channeled, intrapreneurship not only fosters innovation, it also helps employees with good ideas to better channel the resources of a corporation to develop more successful products.

1.14 Glossary

- ***Entrepreneur:*** Someone who organizes a business venture and assumes the risk for it.
- ***Factors of Production:*** Factors of production are the inputs to the production process.
- ***Far-sightedness:*** Ability of planning prudently for the future.
- ***Initiative:*** The power or opportunity to act or take charge before others do.
- ***Innovator:*** An innovator in a general sense is a person or an organization who is one of the first to introduce into reality something better than before.
- ***Leadership:*** The action of leading a group of people or an organization.
- ***Leader:*** The person who leads or commands a group, organization, or country.

- ***Persuade:*** To make somebody do something by giving them good reasons for doing it.
- ***Static:*** Lacking in movement, action, or change, especially in a way viewed as undesirable or uninteresting.
- ***Strategy:*** A plan of action or policy designed to achieve a major or overall aim.
- ***Vision:*** Vision is being able to see where you're going in both literal and figurative senses.

1.15 Review Questions

1. Who is an entrepreneur and how is he different from a businessman?
2. Define the term entrepreneurship in your own words.
3. Tabulate the changing definition of entrepreneur and entrepreneurship.
4. Differentiate between entrepreneur and entrepreneurship.
5. Discuss the views of some eminent social scientists on entrepreneur and entrepreneurship. You can take help from online sources.
6. Discuss the characteristics of entrepreneurs.
7. What is the importance of entrepreneurship for an economy?
8. How will you classify entrepreneurship?
9. Discuss the factors that influence entrepreneurship.
10. How does information gap may create problems for entrepreneurial ventures?
11. Critically analyse the entrepreneurial process.
12. Managers, Entrepreneurs and Intrapreneurs are different pieces of the same maze. Comment.
13. Discuss the developments that should be made in climate and culture of the organization to promote entrepreneurs.
14. Analyse the contribution of leadership and networking skills in becoming a successful intrapreneur.
15. Intrapreneurs should know how to manage relationships in an organization. Explain briefly.
16. Bring out the cultural differences between corporate and intrapreneurhip.
17. Do you agree that interpreneurship, helps the firm grow to a new level? Give reasons.
18. Critically examine the role of interpenuers in shaping an organization.
19. Discuss the environmental factors which influence entrepreneurship.
20. What are the important 'economic factors affecting entrepreneurial growth? Discuss.
21. What are the inimical factors that are retarding the growth of entrepreneurs in the less developed countries? Explain.

1.16 Further Readings

- *Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing.
- Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi. N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons. P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.
- Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.
- http://kalyan-city.blogspot.com/2010/11/entrepreneurship-what-are-its- features.html

UNIT-2

ENTREPRENEURIAL COMPETENCIES

Notes

(Structure)

2.1 Learning Objectives

After studying the chapter, students will be able to:

- Research studies undertaken by different experts on Entrepreneurial Competencies;
- Major competencies that an entrepreneur should possess;
- How entrepreneurial competencies should be developed;
- Appreciate the need and objectives of EDPs;
- Understand what kind of course content EDPs should have;
- Appreciate the phases of EDPs;
- Learn about and appreciate the process of evaluation of the EDPs.

2.2 Introduction

The concept of 'entrepreneurship' is an elusive one. It was in the 16th century that for the first time the concept of entrepreneurship was used in France for the purpose of providing leadership to the army. Then in the 17th century it was used for craftsman and contractors. It was in the 18th century that the term was applied from the economic point of view. Risk bearing activity was connected to the term in the 19th century and by the 20th century, entrepreneurship was accepted as an innovation activity.

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Thus, the concept of entrepreneurship evolved from a long time where it changed according to time, place and the environment. It is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or aggrandise profits by production or distribution of economic goods and services (Cole, 1959).Entrepreneurship is the activity which an entrepreneur performs. It is the act of being an entrepreneur, an individual who undertakes innovations, finance and business acumen in order to transform innovations into economic goods. This may result in new organizations or may be an effort towards developing an established organization. The most popular form of entrepreneurship is that of starting new businesses also termed as Startup Company.' However, in recent years, the term has been extended to include social and political forms of entrepreneurial activity. An entrepreneur is solely responsible for the overall growth of his organisation. Experts like Joseph Schumpeter defines entrepreneur as an innovator who introduces new products, institutes a new production technology, discovers a new market, or discovers a new source of raw material. Richard Cantillon, on the other hand, describes entrepreneur as a risk bearer. Likewise many other qualities are associated with the term entrepreneur. Following are some of the important concepts of entrepreneurship:

1. **Risk Bearing Concept:** This is one of the oldest and most popular concept of entrepreneurship, which was propagated by Richard Cantillon. He was the first person who introduced the term 'Entrepreneur' and his unique risk bearing function in economics in the 18th century. He was of the view that an entrepreneur is such a person who takes the risk of establishing, organising and managing a business enterprise. He defines entrepreneur as an agent who purchase various factors of production at certain prices, combines them and produces products, and sells them at uncertain prices in a future course of time. Another eminent personality; F.H. Knight described entrepreneur to be a specialised group of persons who bears uncertainty.
2. **Organising Concept:** This concept was propagated by Jean Baptiste Say who viewed that an entrepreneurship is an economic factor which organises and co-ordinates different factors of production. He states that an entrepreneur combines the land of one,labour of another person and the capital of yet another individual, combines them and produces a product. After selling the product, he pays off rent on land, wages to labourers and interest on capital. Whatever amount remains is his/her profit.
3. **Innovation Concept:** This concept was propagated by Joseph A. Schumpeter. He assigned a crucial role of 'innovation' to the entrepreneur. He was of the view that economic development is a result of certain discrete dynamic change bought by entrepreneurs by constituting new combinations of production which maybe in the following five forms:
   (a) The introduction of a new product in the market
   (b) The instituting of a new production technology which has not yet tested by experience in the branch of manufacture concerned.
   (c) The opening of a new market into which the specific product has not previously entered.
   (e) The discovery of a new source of supply of raw material.
   (e) The carrying out of the new form of organisation of any industry by creating of a monopoly position or the breaking up of it. (Khanka,2006)

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4. **High Achievement Concept:** David Mc Clleland was the advocator of this concept through his famous Kakinada experiment. He states that entrepreneurship is the result of high achievement. According to his theory, individuals having high level of achievement needs is a successful entrepreneur. Specific characteristics of such individuals include:
   (a) Is of the view that the economic undertaking is a problem that has to be solved. b) Believes that goals can be achieved by his/her own efforts.
   (c) Believes that he/she possesses the required skills to achieve goals d) Likes to take risks.
   (e) Is open and responsive to feedback.
5. **Managerial and Leadership Skill Concept:** The main propagator of this concept includes Hostelify and J.S. Mill. They are of the opinion that the main ingredients of entrepreneurship are managerial and leadership skills. An entrepreneur should have the capacity to inspect, direct and control resources for attaining successfulness.
6. **Searching Opportunities Concept:** According to this concept, an entrepreneur is a person who looks for opportunities always. Entreprenuership, itself involves changing, revolutionizing, transforming and introducing new approaches (Pathak and Kalwar,2008). He exploits the opportunity in the right direction.
7. **Professional Concept:** According to this concept, entrepreneurship is regarded as a profession. It is viewed that entrepreneurship can be developed through education and training. At present, a number of entrepreneurship development programmes are conducted by both government and private institutions for imparting entrepreneurship training among the public.

From the above discussion, we can observe that the term entrepreneurship has evolved a long way. Basically, it is associated with the important functions of innovating, risk bearing and organising. Success of the enterprise, to a great extent, is attributed by the success of the entrepreneur himself. The concepts ultimately forms the basis of entrepreneurial traits.

2.3 Characteristics of Entrepreneur

As early as the 1950s, researchers began looking for personality factors that determine the potential of a person to be an entrepreneur. What makes the entrepreneurs successful? Whether they had anything common in their personal characteristics? The scanning of their personal characteristics shows that there are certain characteristics of entrepreneurs which are found usually prominent in them.

These so-called entrepreneurial characteristics can be looked at to deter-mine a set of skills useful for an entrepreneur to possess. It is unlikely that all these skills will be present in sufficient measure in all potential entrepreneurs. For example: some people may have the creative talent to generate new ideas but lack the ability to organize resources, and others may have a compelling need to achieve but lack the resourcefulness to create a new venture. Many of these individuals with a limited profile based on traits will start new businesses and succeed. Others with a majority of the traits may start new businesses and fail.

It is prudent for the entrepreneur to take stock of what might be lacking and acquire those skills through training. For example, analytical ability and computational skill can be enhanced by education at school and university, while practical knowledge and foresight skills can be enhanced by the general experience of everyday life. Atrue entrepreneur besides possessing functional qualities must also possess a broad personality which helps in developing initiative and drive to accomplish great tasks and face challenges squarely. If we go through the business history of

India, we come across the names of persons who have emerged as successful entrepreneurs. For example, Tata, Birla, Modi, Dalmia, Kirlosker, Bajaj, Mittal and others are well- known names of successful entrepreneurs in the country who started their business enterprises with small size and made good fortunes.

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Would you be apt to describe their demographic profile or their personality characteristics? Or might you focus more on their intention to be entrepreneurs that is, what made them want to be entrepreneurs? Each of these approaches has been used to describe entrepreneurs.

If we wanted to use the demographic approach to describe who entrepreneurs are, we'd look at the characteristics of the individual's personal background. Some of the more popular demographic factors that have been studied include Family birth order (Studies have shown that firstborn children tend to seek out more responsibility and be high achievers, which researchers say is likely to correlate with being an entrepreneur.), Gender (Studies who men are more likely to be entrepreneur), Work experience (entrepreneurial experience is positively related to being an entrepreneur), Level of Education, Entrepreneurial family. Other demographic traits that have been studied by entrepreneurship researchers include marital status, age, education level of parents, and socioeconomic status.

A related stream of research examines how individual demographic and cultural backgrounds affect the chances that a person will become an entrepreneur and be successful at the task. For example, the review done by Binanchi (1993) indicates the following characteristics of an entrepreneur:

- Being an offspring of self-employed parents
- Being fired from more than one job
- Being an immigrant or a child of immigrants
- Previous employment in a firm with more than 100 people
- Being the eldest child in the family
- Being a college graduate

Because there are drawbacks to using demographic characteristics to describe entrepreneurs, perhaps we can learn something about who entrepreneurs are by looking instead at their personality characteristics. For instance, one list of personality characteristics included the following:

- High level of motivation,
- Abundance of self-confidence,
- Ability to be involved for the long term,
- High energy level,
- Persistent problem solver,
- High degree of initiative, ability to set goals, and
- Moderate risk-taker.

The personality approach to describing entrepreneurs, like the demographic approach, isn't flawless, but it has helped us better understand who entrepreneurs are. Considerable research has been dedicated to the task of identifying the traits and characteristics of the typical entrepreneur. **According to John Hornaday** the characteristics of successful entrepreneurs are described below:

Table 2.1. Characteristics of Successful Entrepreneurs

Self-confident and optimistic	Energetic and diligent
Able to take calculated risk	Creative, need to achieve

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Respond positively to challenges	Dynamic leader
Flexible and able to adapt	Responsive to suggestions
Knowledgeable of markets	Take initiatives
Able to get along well with others.	Resourceful and persevering
Independent minded	Perceptive with foresight
Versatile knowledge	Responsive to criticism

James J. Berne has stressed the following qualities of a good entrepreneur:

- He is an enterprising individual, is energetic, hardworking, resourceful, aware of new opportunities and able to adjust himself to changing conditions with ease and willing to assume risks involved in change.
- He is interested in advancing technologically and in improving the quality of his product or service.
- He is interested in expanding the scale of his operations by reinvesting his earnings.
- He visualizes changes and adapts to changing conditions.
- He is a firm believer in planning and systematic work.
- He works for the society at large and for the good of his fellow-beings.

McClelland (1961) found that entrepreneurs had a higher need for achievement than non-entrepreneurs. Surprisingly, he also concluded that contrary to the popular opinion, entrepreneurs were only moderate risk takers. A great deal of research on the personality characteristics and sociocultural backgrounds of successful entrepreneurs was conducted in the 1980s and 1990s. The detailed analysis of more than 50 studies done by Timmons (1994) found a consensus around the following six general characteristics of entrepreneurs:

- Commitment and determination
- Leadership
- Opportunity obsession
- Tolerance of risk, ambiguity and uncertainty
- Creativity, self-reliance and ability to adapt
- Motivation to excel

Kilby has rightly enumerated the following activities for a successful entrepreneur in an underdeveloped economy:

- Perception of market opportunities (novel or imitative).
- Gaining command over scarce resources.
- Purchasing of inputs.
- Marketing of the product and responding effectively to competition.
- Dealing with public bureaucracy as regards concessions, licences, taxes, etc. provided through the various fiscal policies of the government.
- Management of the human relations within the enterprise.
- Management of customer and supplier relations.
- Financial management.
- Production management, including control through written records, supervision, coordinating input flows with orders, maintenance.

- Acquiring and overseeing assembly of the plant.
- Taking care for minimising inputs for a given production process.
- Maintaining the production process and improving the quality of the product.
- Introduction of new production techniques and product lines.

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According to Michael Armstrong the particular characteristics of successful entrepreneurs are that they:

- Are action orientated
- Have the ability to visualize the steps from idea to actualization.
- Are prepared to 'break the mould'.
- Are thinkers and doers, planners and workers.
- adopt a 'hands-on' approach.
- Can tolerate ambiguity- 'enterprise always consists of action in uncertainty'
- Accept risk but understand and manage it.
- Overcome, rather than avoid mistakes.
- See themselves as' responsible for their own destiny, they are dedicated, setting self-determined

Although it seems logical to look at personality and socio-cultural variables to determine the likelihood of entrepreneurial success, studies based on these premises have been able to explain only a small percentage of entrepreneurial successes and failures. In other words researchers have invested a great deal of time and effort over the last few decades trying to paint a clear picture of "the entrepreneurial personality." Although these studies have identified several characteristics entrepreneurs tend to exhibit, none of them has isolated a set of traits required for success.

The characteristics or features or nature or qualities of entrepreneur as an individual are essential to contribute to the success of an enterprise. An entrepreneur possesses the following characteristics:

1. **Innovator:** Within the constraints of available resources that society or a nation offers, entrepreneurs make the best use of them. Entrepreneurs have a creative vision to recognise a business opportunity. An entrepreneur should have creative thinking and be able to engage in the analysis of various problems and situations in order to deal with them. An entrepreneur introduces new products, new technologies and new economic activities. He creates new demands and new aspirations and new methods to fulfil them. Entrepreneur should anticipate changes and must be able to study various situations in which decisions may have to be made. Drucker Writes, "Entrepreneur create something new, something different, they change or transmute values".
2. **Motivation towards Achievement:** A successful entrepreneur should have a strong motivation towards the achievement of a task and must be able to exert considerable efforts in getting things done by others. He has strong urge to achieve. He has a more aggressive level of entrepreneurial venturing, and need achievement.
3. **Ability to Handle Uncertainty:** The ability to handle uncertainty is critical because these business builders constantly make decisions using new, sometimes conflicting information gleaned from a variety of unfamiliar sources. Based on his research, entrepreneurial expert Amar Bhide says that entrepreneurs exhibit "a willingness to jump into things when it's hard to even imagine what the possible set of outcomes will be."
4. **Moderate Risk Taker:** Entrepreneurs are not wild risk takers but are instead calculating risk takers. Unlike "high-rolling, riverboat" gamblers, entrepreneurs rarely gamble. Their goals

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may appear to be high-even impossible-in others' eyes, but entrepreneurs see the situation from a different perspective and believe that their goals are realistic and attainable. They usually spot opportunities in areas that reflect their knowledge, backgrounds, and experiences, which increase their probability of success. Entrepreneurs prepare themselves to anticipate problems, create ways to share those problems with suppliers, creditors etc. and minimise the risk by creating likely-to-be successful ventures. In other words, successful entrepreneurs are not as much risk takers as they are risk eliminators, removing as many obstacles to the successful launch of their ventures as possible. One of the most successful ways of eliminating risks is to build a solid business plan for a venture.

5. **Skill for Organizing:** A true entrepreneur is one who has the ability to mobilise resources in the best possible manner for achieving the business objectives. Entrepreneurs know how to put the right people together to accomplish a task. Effectively combining people and jobs enables entrepreneurs to transform their vision into reality.
6. **Goal Oriented:** Entrepreneurs are highly goal-oriented and specifically aim at producing goods and services that represent unmet needs of consumers. He adopts a 'hands-on' approach. Entrepreneur is planer and doer, dreamer and action-taker. He implements what he visualises. An entrepreneur must be able to set realistic but challenging goals for him as well as for others in the organisation.
7. **Desire for Responsibility:** Entrepreneurs feel a deep sense of personal responsibility for the outcome of ventures they start. They prefer to be in control of their resources, and they use those resources to achieve self-determined goals.
8. **Emotional Stability and Self-control:** Emotional health is a must for entrepreneurs to meet the challenges of exploiting a new business opportunity. Successful entrepreneurs believe in control being exercised from within. They believe in imposing control on themselves and their enterprises rather than leaving their success to fate.
9. **Communication Ability:** This ability pertains to communicate effectively. As a leader an entrepreneur communicates effectively with all concerned such as financiers, employees, customers, suppliers, creditors and all who are concerned with the new enterprise.
10. **Future Orientation:** Entrepreneurs look ahead and are less concerned with what they did yesterday than with what they might do tomorrow. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. Whereas traditional managers are concerned with managing available resources, entrepreneurs are more interested in spotting and capitalizing on opportunities.
11. **Commitment and Dedication:** Entrepreneurs must work with dedication and commitment to launch successful business enterprises. The commitment from the entrepreneur for longer period may be 5 to 10 years is necessary for conceptualisation, building and running an enterprise. Entrepreneurship is hard work, and launching a company successfully requires total commitment from an entrepreneur. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch a company and to keep it growing. That requires commitment.
12. **High Level of Energy:** Entrepreneurs are more energetic than the average person. Managing resources and running an enterprise calls for long hours of work for longer period of time and hence an entrepreneur is a man of high energy level.
13. **Flexibility:** One hallmark of true entrepreneurs is their ability to adapt to the changing demands of their customers and their businesses. In this rapidly changing global economy, rigidity often leads to failure. As our society, its people, and their tastes change, entrepreneurs also must be willing to adapt their business to meet those changes. When their ideas fail to live up to their expectations, successful entrepreneurs change them.

14. **Technical Knowledge:** An entrepreneur must have a reasonable level of technical knowledge. This is the one ability that most people are able to acquire if they try hard enough. The entrepreneur should have a keen desire to change and adopt new industrial or commercial technology available in the market.

15. **Mental Ability:** An entrepreneur will be a man of high level intelligence, creative, thinking and decision maker. He must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decision have to be made.

16. **More than a Manager:** An entrepreneur is more a true leader and less a manager. An entrepreneur builds up his team, educates them, keeps high level of motivation and also provides an environment for creative and focused to work culture. He is the leader of the team. He inspires loyalty and hard work to raise productivity ad efficiency. He has the ability to become market leader.

17. **Problem Solver and a Decision Maker:** In the initial phases of an enterprise many teething problems do occur and an entrepreneur should be a creative problem solver to turn difficulties into advantages. Entrepreneurs face lots of problems right from the conception of an idea to its implementation. Entrepreneurs who are decisive arrive at the right solution to the problem by spending the least possible time and money. Lack of ability to solve problems will result in most of the problems remaining unresolved.

18. **Desire for Immediate Feedback:** Entrepreneurs enjoy the challenge of running a business, and they like to know how they are doing and are constantly looking for feedback.

19. **Human Relation Ability:** Tactful and warm human relation is an important factor which brings success to an entrepreneur. An entrepreneur who maintains good relations with customers, employees, suppliers, creditors and the community is much more likely to succeed in his business than the individual who does not invest in maintaining these relations.

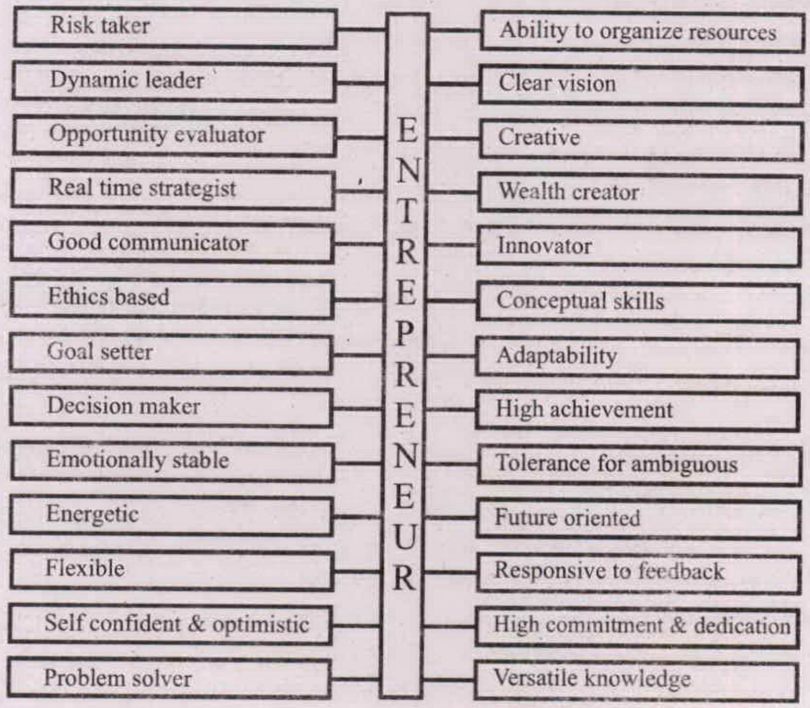

Figure 2.1: Characteristics of Entrepreneur

What conclusion can we draw from the above discussion on the entrepreneurial personality? Entrepreneurs are not of one mold; no one set of characteristics can predict who will become entrepreneurs and whether or not they will succeed. Indeed, diversity seems to be a central characteristic of entrepreneurs.

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2.4 Major Entrepreneurial Competencies

The role of entrepreneurship in economic development involves more than just increasing per capita income and output. It involves constituting change in the structure of business and society. An entrepreneur, being the torch bearer of an enterprise,should possess certain traits or competencies. A 'competence' is an underlying characteristic of a person which leads to his/her effective or superior performance in a job (Boyatzis, 1982).

Possession of certain competencies, also known as entrepreneurial competencies, will help entrepreneurs to operate their business successfully. These competencies or traits may not be known to the person concerned. The traditional viewpoint was that entrepreneurs were born, not made. Most people used to think that a person becomes a successful entrepreneur because he/she belongs to a business family background. But gradually, studies have shown that it is not merely the possession of a business family background that makes a person a successful entrepreneur, but there are certain other qualities and skills which an entrepreneur should acquire to be successful. The additional skills and knowledge can however be acquired only through education and experience. Certain factors however hamper the creation of entrepreneurs which basically include lack of capital, raw material, market, social mobility etc.

Entrepreneurial competencies enhances entrepreneurial performance. Research studies have been conducted by different individual and institutions regarding major entrepreneurial competencies that should be acquired by an entrepreneur. A study conducted by Entrepreneurship Development Institute of India (EDI), Ahmedabad under the guidance of Prof. David Mc Clleland has identified the following major competencies to be acquired by an entrepreneur which results in superior performance.

1. **Initiative:** An entrepreneur is one who initiates a business activity.
2. **Persistence:** He follows the Japanese proverb "Fall seven times,stand up eight." He makes repeated efforts to overcome obstacles that get in the way of reaching goals.
3. **Looking for opportunities:** He looks for an opportunity and takes appropriate action as and when it arises.
4. **Information seeker:** Takes individual research and consults experts to get information to help reach the goal.
5. **Quality conscious:** He has always strong urge to excel to beat the existing standards.
6. **Commitment:** He does every sacrifice to get the work completed.
7. **Efficiency Seeker:** Makes tenacious efforts to get the task completed with minimum cost and time.
8. **Proper Planning:** He formulates realistic plans and implements them rigorously.
9. **Self Confidence:** He possess strong self confidence
10. **Well wisher:** He is a well wisher of his employees.
11. **Efficient monitor:** He personally supervises the work of his subordinates.
12. Again, James J. Berne(1960) emphasized on the following qualities of a good entrepreneur:
    - He is an enterprising individual, energetic and hard working.
    - He is interested in advancing technologically and in improving the quality of his product or service.

- He is interested in expanding the scale of his operations.
- He visualises changes and adopts them.
- He is a firm believer in planning and systematic work.

Likewise eminent experts like B.C. Tandon and James T.Mc Crory have identified and stated various competencies of an entrepreneur. The much required traits that makes a good entrepreneur can be summed up as follows:

1. **Motivation Towards Achievement:** An entrepreneur is always motivated towards the need for high achievement. Moreover, he should also have the capacity to get things done through others.
2. **Risk Bearing Capacity:** A successful entrepreneur should always be alert to new opportunities and should have the capacity to bear risk. Hull and colleagues (1980) found that the personality characteristics most important in identifying entrepreneurial types of individuals are (a) functional task preference and (b) personality constructs of creativity, risk and flexibility.
3. **Tactful:** An entrepreneur should be tactful and should have the capacity to make rational and quick decisions.
4. **Leadership:** An entrepreneur must have the ability to lead and manage.
5. **Resource Utilisation:** The entrepreneur should take steps for mobilising available resources to the optimum for achieving organisational goals. He should try to keep the cost of production to the minimum, but without compromising the quality of goods or services.
6. **Communicator:** An entrepreneur should be a good communicator. He should communicate plans and policies to his subordinates in a proper and effective manner.
7. **Motivator:** A good entrepreneur is a person who can motivate others to perform for the effectiveness of the organisation.
8. **Willingness to Change:** An entrepreneur should update himself with new technological improvements and should adopt it in the business to keep pace with the competitive environment. For this purpose, he should possess necessary technical knowledge
9. **Optimistic:** An entrepreneur should be optimistic in his approach.
10. **Innovative:** He should be innovative in nature. He should always look for new opportunities and try to implement them. Gartner (1989) refers to innovation as the central value of the entrepreneurial behavior, since it is successfully taking an idea or invention to market. Innovation and problem solving capabilities are expected to be the core of the entrepreneurial capability of an entrepreneur. The entrepreneur, in his way of searching new opportunities, have to face innumerable challenges. Thus, innovativeness is a major issue in this aspect, since he have to bring an idea which is completely new. Schumpter (as cited in Sexton and Smilor, 1986) felt that innovation was one of the central characteristics of entrepreneurial endeavor.
11. **Value:** An entrepreneur should have certain values within him/her. Value refers to an individual's perception on people , places and things.
12. **Locus of Control:** The concept of locus of control is closely related to the concept of a high need for achievement .

    Locus of control maybe internal or external based. People having internal locus of control believe that they themselves can control their destiny. On the other hand, people having external locus of control believes that there are certain external factors,which have a dominating influence over their fate. It is believed that people having high internal locus of control have high achievement motive. Individuals who are reluctant in believing in

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their ability to control the environment though their actions, would also be expected to be reluctant to assume the risks that starting a business entails (Chen, Greene, and Crick, 1998; Mueller and Thomas, 2000, Sexton and Smilor, 1986;)

13. **Strong Commitment:** An entrepreneur is characterized by strong commitment and will power. He takes every step to make his enterprise successful even at the cost of his own interest. He motivates others to get work done.
14. **Change Agent:** The entrepreneur is a change agent. He introduces changes in the enterprise to make it sustain in this competitive globalised environment

2.5 Developing Competencies

Entrepreneurial competency results in superior performance of a job. It is a crucial factor in attaining success. Competency has a direct bearing on human behaviour and performance which necessitates that entrepreneurial competencies are need to be developed in a very systematic manner. The main components of entrepreneurial competence are knowledge, skill and motive. Any procedure aimed at developing entrepreneurial competence should examine that there is adequate improvement in the knowledge, skill and motive of the trainee/participant. The well known Kakinada experiment has proved that it is through education and training that entrepreneurial competencies can be injected in human behaviour. Thus, it was this experiment which made people believe that it was training that plays a significant role in inducing entrepreneurial competencies and hence the idea of conducting entrepreneurial training, popularly known as Entrepreneurship Development Programme (EDP) has evolved. EDP is a broad concept involving techniques of developing competencies alongwith providing ideas assisting potential entrepreneurs to set up their enterprises. It means a program which is designed to help a person in strengthening and fulfilling his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively (wiki.answers.com) An entrepreneur should possess adequate skills, ability to grasp opportunities , knowledge to maximize gains, business skills, and leadership qualities. This can be made possible through entrepreneurship development. Various entrepreneurship development models are as follows:

(A) Psychological Models

These model gives preference to the psychology of an individual in learning entrepreneurship traits. For instance, David Mc Clleland, in his entrepreneurship model, puts more emphasis on achievement motives and suggested that motivation training programme is the policy measure which makes entrepreneurs willing and eager new opportunities. Again, John Kunkel, in 1965, provided a behaviourist model which suggested that entrepreneurial behaviour is a function of the surrounding social structure, both past and present, and can be influenced by manipulating economic and social incentives (Charantimath,2005).The need to achieve is a drive to excel, to achieve a goal in relation to a set of standards (Chell, Haworth, and Brearley, 1991, Johnson, 1990).Other criticisms of McClelland's achievement motivation theory on entrepreneurs look at the attempt to relate economic development to the prevalence of achievement imagery (Chell, Haworth and Brearley, 1991). In certain cultures, failure is seen as a positive learning experience, while in others it is not.

However, some empirical support have been provided by various experts on the idea that entrepreneurs have a higher motive to achieve as compared to non-entrepreneurs. Begley (1995) and Hornaday and Aboud (1971) consistently found that the achievement motivation exists as a stable characteristic and is more prevalent among entrepreneurs when compared to others.

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(B) Social Models

The social approach focuses on the novice entrepreneur and his intention to creating a business. For this purpose, the entrepreneur needs help in developing self-efficacy and a support system from the community to help in planning, self-regulation, and converting ideas into a potential business enterprise. One of the popular sociological model is Frank W.Young's theory of entrepreneurship which is mainly based on the incorporation of relative sub groups by the society.

(C) Integrated Models

Approaches under this category basically emphasizes on the fact that there are certain factors which when combined results in entrepreneurship. These factors include need for motive, long term commitment, availability of personal, social and material resources and an effective socio-political system. The models consider entrepreneurship to be a behaviour rather than a trait.

1. **Acquiring knowledge and understanding:** The first step towards acquiring a new behaviour is to gain knowledge and understanding what a particular competence means. Competencies cannot be cultivated without having an adequate knowledge on its meaning, importance and relevance.
2. **Recognising competency:** Under this step, the competency should be recognised. This will assist an entreprenêur to know as to which competencies are required to perform a particular task in a specific manner when someone exhibits the same.

   Once a particular competency is understood and recognized, the next step is to find out where one stands with respect to a given competency. In other words, a person should try to determine that whether he possesses a given competence and if yes, how frequently one exhibits the same in one's day-to-day activities for achieving his desired goal. This can be done by preparing a self-rating questionnaire
3. **Competence Application:** At this stage the person having determined that at what position he stands with respect to a particular competency,should practice the same on a continuous basis in various activities.
4. **Feedback:** Finally, after understanding, internalising and practising a particular behaviour, one must make an introspection of the same to determine the strengths and weakness of one's behaviour. This will assist the person to take a decision on whether to sustain or give up that behaviour.

2.6 Entrepreneurial Motivation

Entrepreneur is human being who has his dignity, self-respect, values, sentiments, aspirations, dreams apart from economic status. Indeed, economic betterment and social upliftment motivates a person to distinguish from others. Entrepreneurship is to a great extent the product of motivation. Motivation refers to the inner drive that ignities and sustains behaviour to satisfy needs. Behaviour is always caused and it is not spontaneous. In other words, human behaviour is goal directed or directed towards satisfaction of needs. A person's behaviour is shaped by several sociopsychological factors such as his goals, education level, cultural background, work experience, etc. When a person, feels some need tension arises in his mind until the need is satisfied. The tension motivates him to take action. If the action is successful need is satisfied otherwise the person changes the action until the need satisfaction occurs.

By now, you have learnt what an entrepreneur is and does. You have also learnt that the entrepreneurs play a risk-bearing role which is a difficult one. The entrepreneur embarks on a difficult journey. Then, a few important and obvious questions arise: What prompts people to embark on such a difficult journey? What motivates people to go into business? This lesson intends to answer these questions/issues by discussing entrepreneurial motivation in its various aspects viz. meaning and theories of motivation, motivating factors and development of achievement motivation.

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2.7 Concept of Motivation

The term 'motivation' has its origin in the Latin word *"movere"* which means to "move". Thus, motivation stands for movement. One can get a donkey to move by using a "Carrot or a stick", with people one can use incentives, or threats or reprimands. However, these only have a limited effect. These work for a while and then need to be repeated, increased or reinforced to secure further movement. The term motivation may be defined as "the managerial function of ascertaining the motives of subordinates and helping them to realise those motives."

Whatever may be the behaviour of a man, there is always some stimulus that elicit the behaviour. Stimulus is often dependent upon t4e motive of the person concerned. Motive can be known by studying his needs and desires. There is no universal theory that can explain the factors influencing motives which control man's behaviour at any particular point of time. Generally, different motives operate at different times among different people and influence their behaviour. The management should try to understand the motives of individuals which cause different types of behaviour.

According to Dubin, motivation could be defined as "the complex of forces starting and keeping a person at work in an organisation. Motivation is something that .moves the person to action, and continues him in the course of action already initiated". Motivation refers to the way a person is enthused at work to intensify his/her desire and willingness to use and channelise his/her energy for the achievement of organizational objectives. It is something that moves a person into action and continues him in the course of action enthusiastically. The role of motivation is to develop and intensify the desire in every member of the organisation to work effectively and efficiency in his position.

In the words of Dalton E. McFarland, "Motivation is the way in, which urges desires, aspirations, striving or needs direct, control or explain the, behaviour of human being". Motivation has very close relationship with the behaviour. It explains how and why the human behaviour is caused. According to McFarland motivation is a form of tension occurring within individuals, with resulting behaviour aimed at reducing, eliminating or diverting the tension. Understanding the needs and drives and their resulting tensions helps to explain and predict human behaviour ultimately providing a sound basis for managerial decision and action. Thus, motivation is the term which applies to the entire class of urges, drives, desires, needs and similar forces.

March and Simon have developed a model, according to which motivation is the process or the reaction which takes place in the memory of the individual. It may be viewed as the combination of forces or motives maintaining human activity. Motivation to produce is a function of the character of the evoked set of alternatives, the perceived consequences of evoked alternatives and individual goals in terms of which alternatives are evaluated. March and Simon have established positive correlation between productivity and motivation by means of a theoretical model shown in Figure 2.2.

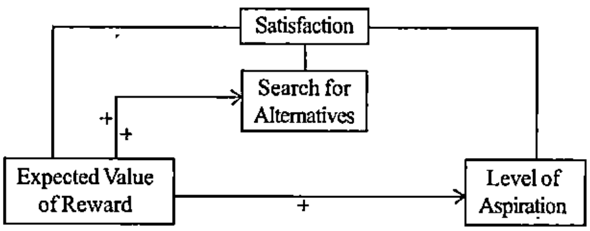

Figure 2.2: March and Simon's Motivation Model

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The main implications of this model are as under:

1. If lower the individual satisfaction, greater the search for better ways of doing the job.
2. With more search for alternative, greater is the expectation of rewards.
3. When greater the expected rewards, the higher the satisfaction and level of aspiration.
4. When higher the level of aspiration, lower the satisfaction.

The unsatisfied needs of a person is the beginning of the motivation process. The unsatisfied need results in tension within the individual and motivates him to search for the ways to relieve this tension, and compels or develops certain goals for himself. If he is successful in achieving his goals, certain other needs will emerge which will lead to setting a new goal. But if the goal is not achieved, the individual will engage himself in either constructive or destructive behaviour. This process never stops. . It keeps on working within an individual.

Needs, Incentives and Motives

A distinction may be made among three things: need, incentive and motive. This is to emphasise that any need present in the individual does not necessarily lead to action. The need has to be activated which is the function of incentive. Incentive is something which incites or tends to incite towards some determination. Thus, incentive is an external stimulus that activates need and motive refers to an activated need, and active desire or wish. But a better definition is to regard incentive as the outward stimulus for the motive to work. When a motive is present in a person, it becomes active when there is some incentive. Thus, any incentive has reference to (i) the individual and his needs which he is trying to satisfy or fulfill; and (ii) the organisation which is providing the individual with opportunity to satisfy his needs in return for his services. Thus, conceptual difference between motivation and incentive is that incentive is the means to motivation.

It is, clear that incentive has direct bearing on the degree of motivation. Increase in incentive leads to better performance and decrease in incentive has adverse effect on performance. It should be noted that motivation does not change the individual's capacity to work. It simply determines the level of the effort of individual, raises it or lowers it, as the case may be. Keith Davis feels that motives are expression of a person's need; hence, they are personal and internal. Incentives, on the other hand, are external to the person. They are something he perceives in his environment as helpful towards accomplishing his goal. For instance, management offers salesmen a bonus as an incentive to channel in productive way their drives for recognition and status.

Needs create tension which are modified by one's culture to cause certain wants. These wants are interpreted in terms of positive and negative incentives to produce a certain response or action. To illustrate, need for food produces a tension of hunger. Since culture affects hunger, a man will require wheat or rice accordingly. For a man, perhaps incentive is provided by his wife's promise to prepare food in his favourite way.

Theories of Motivation

The importance of motivation to human life and work can be judged by the number of theories that have been propounded to explain human's behaviour. They explain human motivation through human needs and human nature. Prominent among these theories which are particularly relevant to entrepreneurship are Maslow's Need Hierarchy Theory and McClelland's Acquired Needs Theory.

1. Maslow's Need Hierarchy Theory

Prof A. H. Maslow developed a theoretical framework for understanding human motivation which has been widely acclaimed. According to him, a person's effectiveness is a function of matching his opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with an assumption that behaviour, at least in part, is directed towards the satisfaction of needs. Maslow proposed that human needs can be arranged in a particular order from the lower to the higher as shown in Figure 2.3.

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The need hierarcy is as follows:

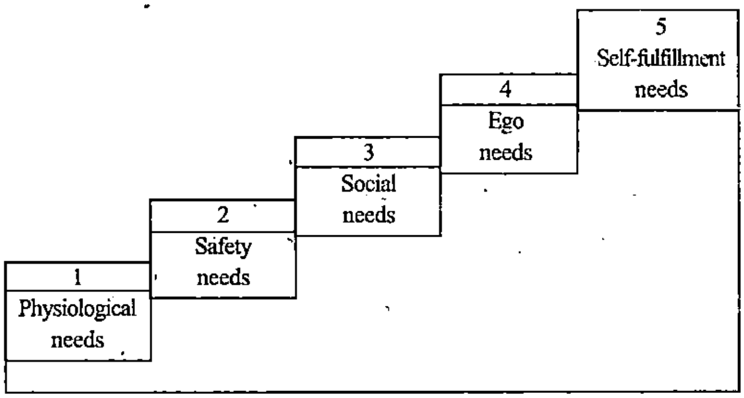

Figure 2.3: Maslow's Need Hierarcy

1. **Basic Physiological Needs:** The physiological needs relate to the survival and maintenance of human life. These needs include such things as food, clothing, air, water and other necessaries of life which are biological in nature. These needs are primary needs.
2. **Safety and Security Needs:** After satisfying the 'physiological needs, people want the assurance of maintaining a given, economic level. They want job security, personal bodily security, security of source of income, provision for old age, insurance - against risks, etc.
3. **Social Needs:** Man is a social being. He is, therefore, interested in conversation, sociability, exchange of feelings and grievances; companionship, recognition, belongingness, etc.
4. **Esteem and Status Needs:** These needs embrace such things as self- confidence, independence, achievement, competence, knowledge and success. These needs boost the ego of individual. They are also known as egoistic needs. They are concerned with prestige and status of the individual.
5. **Self-Fulfillment Needs:** The final step under the need priority model is the need for self-fulfillment or the need to fulfill what a person considers to be his mission in life. It involves realizing one's potentialities for continued self-development and for being creative in the broadest sense of the word. After his other needs are fulfilled, a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough dash and initiative to work, it is beneficial to him in particular and to the society in general. The sense of achievement gives him psychological satisfaction.

Maslow felt that the needs have a definite sequence of domination. Second need does not dominate until first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied and so on. The other side of the needs hierarcy is that man is a wanting animal, he continues to want something or the other. He is never fully satisfied. If one need is satisfied, the other need arises.

As said above (according to Maslow), needs arise in a certain order of preference and not randomly. Thus, if one's lower level needs (physiological and security needs) are unsatisfied, he can be motivated only by satisfying his lower level needs and not satisfying his higher level needs. Another point to note is that once a need or a certain order of needs is satisfied, it ceases to be a motivating factor. Man lives for bread alone as long as it is not available. In the absence of air one can't live, it is plenty of air which ceases to be motivating.

The physiological and security needs are finite and tangible, but the needs of higher order are sufficiently infinite and are likely to be dominant ones in persons at higher levels in the organisation. This has been proved by various studies. A study by Boris Blai supported this by showing that managers and professionals in U.S.A. highly value self-realization, while service and manual workers value job security most highly. Further, a survey of 200 factory workers in India reported that they give top priority to job security, earnings and personal benefits- all lower order needs. Studies have also revealed that those needs, which are thought to be most important like social needs, egoistic needs and self-realization, are also thought to be the best satisfiers. One study on two thousand and eight hundred managers in eleven countries reported that security, belongingness esteem and self-realization needs are progressively less satisfied according to the pattern of the needs priority model.

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Appraisal of Need Hierarchy Model: The need priority model may not be apply at all times in all places. Surveys in continental European countries and Japan have shown that the model does not apply very well to their managers. Their degrees of satisfaction of needed does not vary according to the need priority model. For example, workers in Spain and Belgium felt that their esteem needs are better satisfied than their security and social needs, Apparently, cultural differences are an important cause of these differences. Thus, need hierarchy may not follow the sequence postulated by Maslow. Even if safety need is not satisfied, the egoistic or social need may emerge.

Proposition that one need is satisfied at one time is also of doubtful validity. The phenomenon of multiple motivation is of great practical importance in understanding the behaviour-of man. Man's behaviour at any time is mostly, guided by multiplicity of motives. However one or two motives in any situation may be proponent, while, others may be of secondary importance. Moreover, at different levels of needs, the motivation will be different. Money can act as a motivator only for physiological and social needs, not for satisfying higher level needs. Employees are enthusiastically motivated by what they are seeking, more than by what they already have. They may react cautiously in order to keep what they already have, but they move forward with enthusiasm when they are seeking something else. In other words, man works for bread alone as long as it is not available.

There are always some people in whom, for instance, need for self- esteem seems to be more prominent than that of love. There are also creative people in whom the drive for creativeness seems to be more important. In certain people, the level of operation may be permanently lower. For instance, a person who has experienced chronic unemployment may continue to be satisfied for the rest of his life if only he can get enough food. Another cause of reversal of need hierarcy is that when a need has been satisfied for a long time, it may be under-valued.

2. *McClelland's Acquired Needs Theory*

Each person tends to develop certain motivational drives as a result of his cognitive pattern and the environment in which he lives. David McClelland gave a model of motivation which is based on three types of needs, namely, achievement, power and affiliation. They are as follows:

1. **Need for achievement (n-Ach):** a drive to excel, advance and grow;
2. **Need for power (n-Pow):** A drive to influencing others and situations; and
3. **Need for affiliation (n-Aft):** A drive for friendly and close interpersonal relationships.

1. **Achievement Motivation:** Some people have a compelling drive to succeed and they strive for personal achievement rather than the rewards of success that accompany it. They have a desire to do something better or more efficiently than it has been done before This drive

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is the achievement need (n- Ach). From researches into the area of achievement need, McClelland found that high achievers differentiate themselves from others by their desire to do things better. They seek situations where they can attain personal responsibility for finding solutions to, problems, where they can receive rapid feedback on their performance so they can set moderately challenging goals. High achievers are not gamblers; they dislike succeeding by chance. They prefer the challenge of working at a problem and accepting the personal responsibility for success or failure, rather than leaving the outcome to chance or the actions of others.

2. **Power Motivation:** The need for power (n-Pow) is a drive to have impact, to be influential, and to control others. Individuals high in n-Pow enjoy being "in charge", strive for influence over others, prefer to be placed into competitive and status-oriented situations, and tend to be more concerned with gaining influence over others and prestige than with effective performance. Power-motivated people wish to create an impact on their organisations and are wiling to take risks to do so.
3. **Affiliation Motivation:** This need has received the least attention of researchers. Affiliation need (n-Aft) can be viewed as the desire to be liked and accepted by others. 1t is the drive to relate to people on a social basis. Individuals with a high affiliation motive strive for friendship, prefer cooperative situations rather than competitive ones, and desire relationships involving a high degree of mutual understanding.

People possess the above needs in varying degrees. However, one of the needs will tend to be more characteristic of the individual rather than the other two. Individual with a high-need for achievement thrive on jobs and projects that tax their skills and abilities. Such individuals are goal-oriented in their activities, seek a challenge and want task relevant feedback. Individuals with high affiliation needs value interpersonal relationships and exhibit sensitivity towards other people's feeling. But individuals with the high power needs seek to dominate, influence or have control over others.

McClelland also suggests that these three needs may simultaneously be acting on an individual. But, in case of an entrepreneur, the high need for achievement is found dominating one. In his view, the people with high need for achievement are characterised by the following:

1. They set moderate, realistic and attainable goals for them.
2. Prefer to situations in which they can find solutions for solving personal responsibility.
3. They need concrete feedback on how well they are doing.
4. They have need for achievement for attaining personal accomplishment.
5. They look for challenging tasks.

Entrepreneurial motivation may be defined as a set of motives such as high need to achieve, moderate need for power and low affiliation motive which induce people to set up and run their own enterprises. Apart from these, entrepreneurs have other behavioural dimensions such as, tolerance for ambiguity, problem solving, creativity, etc.

2.8 Motives For Starting Enterprises

Several researchers have carried out research studies to identify the factors that motivate people to start business enterprises. The findings of some of the studies are as follows.

1. In this pioneering study, R.A. Sharma classified all the factors motivating the entrepreneurs into two types as follows:
   (i) Internal factors
      (a) Educational background

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(b) Occupational experience
(c) Desire to do something pioneering and innovative
(d) Desire to be free and independent
(e) family background

(i) External factors
(a) Assistance from Government
(b) Financial assistance from institutions
(c) Availability of technology and/or raw materials
(d) Encouragement from big business units
(e) Heavy demand for product
(f) Others.

Internal factors constitute the personality of the entrepreneur and thereby generate an inclination to adopt entrepreneurial activity. The presence of these factors is essential for entrepreneurial activity to take place. But entrepreneurial ambitions cannot fructify without a supporting environment. External factor prove environment and give a spark to entrepreneurship.

Among the internal factors, the desire to do something creative was important. It means the desire to make a contribution to the development of the state, to introduce an entirely new product in the market, to place the home town on the country's industrial map, to make full use of technical skills, to provide employment to intelligent youngmen and women in the community, etc. Occupational experience (familiar with the product, knowledge of the market, etc.) was rated as the second most important internal motive. Business experience provides confidence for starting anew enterprise. Technicians, engineers and executives rated business experience more important motivator than other types of entrepreneurs.

Among the external factors, assistance from financial and other Governmental institutions was rated the strongest motivator. Other factors include availability of surplus funds, sick units available at a cheap price, success stores of first generation entrepreneurs, support of mends and relatives, etc. In some cases there were compelling reasons like loss of job, death of the father dissatisfaction with the job held, etc., prompting people to launch their own industries.

2. H. N. Pathak indicated that at small scale level, profit motive inspired small scale entrepreneurs. Ambition for independent working in industry also motivated non-corporate level entrepreneurs. Sharma's study also revealed that motivating factors varied according to the, occupation background of entrepreneurs. Business executives, engineers, consultants, traders, considered occupational experience as most important. According to McClelland, executive generally have higher need for a achievement than men in other occupations. On the other hand, government servicemen, contractors and entrepreneurs from agricultural activities considered assistance from government and financial institutions as the most important factor.

2. After making different studies on technical and new entrepreneurship, Arnold C. Copper concluded that there are three main groups of factors which influence an entrepreneur. These are (i) the characteristics of the entrepreneur including many aspects of his background (family, education, age; occupational experience, etc.) which make him more or less, inclined towards entrepreneurship. These might be called "internal factors" (ii) the organisation for which he has been working earlier which' might be termed as the incubator organisation (iii) a complex of' external influences' including the availability of venture capital, collective

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attitudes and perceptions leading to entrepreneurship, and the accessibility to suppliers, personnel and markets.

3. Another – study by Murthy, Sekhar and Rao on entrepreneurial motivation classified the factors behind entrepreneurial growth into three categories as follows:
   - (i) Entrepreneurial ambitions
     - (a) To make money
     - (b) To continue family business
     - (c) To secure self-employment/independent living
     - (d) To fulfil desire of self/wife/parents
     - (e) To gain social prestige
     - (f) Other ambitions-making of a decent living, self-employment of children, desire to do something creative, provide employment to others.
   - (ii) Compelling reasons
     - (a) Unemployment
     - (b) Dissatisfaction with the job so far held or occupation pursued
     - (c) Make use of idle funds
     - (d) Make use of technical/professional skills.
     - (e) Others - maintenance of large families, revival of sick unit started by father, etc.
   - (iii) Facilitating factors
     - (a) Success stories of entrepreneurs
     - (b) Previous association (experience in the same or other line of activity)
     - (c) Previous employment in the same or other line of activity
     - (d) Property inherited/self acquired/wife's
     - (e) Advice or influence (encouragement) of family members/ relatives/mends.
     - (f) Others- association as apprentices and sleeping partners.

The study was conducted on 334 entrepreneurs in two coastal towns of Anakapalli and Gudivada of Andhra Pradesh. The ambitions of continuing family business and securing self employment emerged as the most significant motivating factors. Making money and gaining social prestige were found to be insignificant.

May a time, it is the compulsion rather than the ambition that leads the man to success. Sometimes the initial ambition and the opportunities may clash with each other. In such cases, compulsion of the situation determines the destiny. Therefore, it is, appropriate to examine the reasons that might have compelled the entrepreneurs to, pursue entrepreneurship. Making use of technical and professional skills was found to be the most important compulsion that has driven most of the respondents to entrepreneurship. Dissatisfaction in the job or occupation pursued was the second important compulsion and other compelling factors were insignificant. It may be inferred that the entrepreneurs wanted to capitalise their skills for themselves than working for others. They felt that their abilities were certainly more than what the job required and their aspirations exceeded what normally the job provided.

Ambitions or compulsions alone may not make a man an entrepreneur. The moral support and encouragement of family members, friends and relatives, previous experience and inherited property are very helpful in the growth of entrepreneurship. Moral support from the 'near and dear inspires the would be entrepreneur, reinforces his confidence and prepare him to face the new challenges boldly.

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Among the facilitating factors, previous association in the same or other line of activity was rated highest followed by previous employment in the same or other line of activity. Previous association and employment gave abundant self-confidence. Previous employment here meant a person being employed for making a living. On the other hand, previous association implied apprenticeship in business firms. Most of the entrepreneurs expressed the view that it was better to get the training as apprentices or employees before setting up an enterprise. Such experience instills confidence among the youth, serves as the nursery for buildings the enterprise and accelerates the process of generation of entrepreneurship.

The success stories of entrepreneurs was recognised as an important factor that inspired new entrepreneurs. This finding points out the need for introduction of entrepreneurial stories in school curriculum along with the stories of political leaders and social reformers. This is in conformity with Eugene Staley's pilot study in Osmanabad (Maharashtra). Unfortunately, in India successful business leaders are denigrated by politicians. This generates a sense of hatred in the minds of youth towards leaders of industry, An impression is created that entrepreneurship itself is something unethical or antisocial. Such an impression thwarts the healthy growth of, entrepreneurship in the country.

The study by Murthy *et. al* also revealed that the family property and assistance from relatives and friends was the most significant source of initial capital for an entrepreneur. Such risk capital from family funds enhanced the entrepreneur's trustworthiness in the money market and relived him from the fear of the business failure. It indicated the family's confidence in the entrepreneur and the family's willingness to risk saving in entrepreneurial activities. Thus, in Indian society entrepreneurship cannot be considered as an individual phenomenon and strictly intrinsic to the person involved. Rather it is an extension of the family aspirations and ambitions that are ultimately realised by an individual.

Contrary to the general expectations, the entrepreneur's wife, family members and relatives were found to be the prime motivators who instilled the spirit of entrepreneurship in the entrepreneur. They served as philosopher and guide to the individual and the role of the Government as motivator was insignificant. It may be, concluded that entrepreneurship is the result of encouragement and support by wife and family members apart from the individual's own initiative.

McClelland and his associates contend that need for achievement is a prerequisite for becoming an entrepreneur. People with a high level of achievement motivation are likely to behave in an entrepreneurial way. But it is not essential that such people will actually become entrepreneurs. Such persons are likely to be attached towards business only if business enjoys a high prestige in society. Thus, the relationship between achievement need and occupational preference depends on the prestige of the occupation, concerned.

Murthy analyzed the entrepreneurs' perception of different occupation in terms of the social status of these occupations. Trading was ranked first and farming was ranked last by the entrepreneurs. It was further enquired how the entrepreneurs rated their present occupation. Entrepreneurs engaged in trading and manufacturing rated their occupations as the best. But most of the farmers did not rate farming as the best occupation.

Caste wise perception of the occupation in terms of social image were also anlaysed. Entrepreneurs' perception with different caste origins different markedly. The analysis indicated that farmers might like to change to non- farming and traders to manufacturing because they carry higher image in the public mind.

5. Two subsequent studies in Andhra Pradesh have by and large corroborated the findings of Murthy, *et. al* In his study of 87 manufacturing units in thirteen industrial estates of Andhra

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Pradesh, N. Gangadhar Rao found that making money is the most important ambition and fulfillment of the desire of self/ wife/father as the second important ambition. However, the aggregate pull of non-money ambitions was found to be more than twice of the money ambitions. Family members play useful role in giving shape to entrepreneurial ambitions. In view of the significance of earning motive, achievement motivation programmes should be designed to inculcate ambition for money. Among the compelling reasons, dissatisfaction with the job held so far or the occupation so far pursued was rated the highest followed by making use of idle funds. Inherited property, technical and professional qualifications, and success stories of entrepreneurs were found to be significant among the facilitating factors. Rao expanded the list of facilitating factors to include (i) technical and professional skills acquired; (ii) allotment of plot/shed in industrial estate; (iii) financial assistance from State agencies, banks, family, friends and relatives; (iv) ancillary relation with large firms; and (v) dependable partners.

Majority of the entrepreneurs considered themselves as self-developed and made no mention of their friend, philosopher and guide. This is a testimony of the resourcefulness of the entrepreneurs and it is this class of entrepreneurs that are needed most. About 47 per cent of the entrepreneurs mentioned their family members, relatives, friends former employers, industrial leaders and politicians as their mentors. This gives the impression that entrepreneurship can be induced easily.

6. In another similar study of 40 enterprises in Marripalem and Autonagar industrial estates of Andhra Pradesh, Ashok Kumar found that to become self- reliant and to materialise one's ideas and skills were the most significant ambitions. Dissatisfaction with the earlier job and dependency situation were the main factors that compelled the respondents to become entrepreneurs. among the facilitating factors, education, training and previous job experience were the most important.

The entrepreneur might have come on his own or on being encouraged by others. Therefore, an attempt was made to ascertain the man responsible for infusing the spirit of enterprise. Nearly one half of the entrepreneurs were self-motivated whereas around one- third of them were motivated by friends and relations and the remaining by their parents.

Entrepreneurship is not an accident, but an ambition or aspiration nourished over a period of time. In many a case; entrepreneurship takes a long time to unfold itself. The interval between conceiving an idea and materializing the same may range from a few years to a few generations. Therefore, it was attempted to find out whether the entrepreneurs had aspired for it in their childhood. It was found that nearly two thirds of the respondents had aspired for entrepreneurship during their childhood itself.

V.L. Rao has summarised the views of various experts on sources of entrepreneurial supply and motivation in the form of a table which is given below:

Table 2.2: Entrepreneurship: Sources of Supply and Motivation

Author	Entrepreneurial phenomenon	Source of Entrepreneurial supply	Motive force or triggering factor
1. Schumpeter	Individual	Extraordinary individuals	Innate urge to achieve success
2. Weber	Status groups	Extraordinary individuals	Religious beliefs, Calvinist ethic
3. McClelland	Religious social groups	Individual with high n-achievement, creative.	Child-rearing practices and climate

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4. Hagen	Subordinated Groups	Individuals in the society driven by a duty to achieve	Status withdrawl and relative social blockage.
5. Cochran	Individual	Society's model personality determined by its cultural values, role expectations and social sanctions	Social Acceptance of entrepreneurial role
6. Young	Homogeneous	'Relative sub-groups' (ethnic communities) occupational groups,. or Politically-oriented factions	Deviant view of the world strength themed by group solidarity.
7. Kunkel	Group	Operant conditioning procedures in a society.	Reinforcing stimuli and average stimuli
8. Hoselitz	Group	Culturally marginal groups	Gaining social recognition.

K. Sadhak found that monetary consideration was the most important motivating factor. Entrepreneurs motivated by income were mainly traders an salaried employees. Independent job was as the main inspiration for salaried employees who were not satisfied with the' work environment, nature of job, management style, etc. Self advancement, social recognition, responsibility were other motivating factors.

It is not only the desire to achieve but the favorable environment which translate the desireintor reality. The above motivational factors were significantly influenced by certain assisting factors like family environment (business family), technical knowledge (through education or past employment); training and Government incentives. Entrepreneurs from business families enjoyed financial support, former employees had social contact, and engineers were having technical competence. It was, therefore, difficult to single out any particular motivating factor. However, income, social recognition and other 'pull' factors strongly induced people to start industry. Moreover, most of the entrepreneurs were, self motivated. There were some stray cases also induced by varied factors like advice of business friends, the fabulous profits , earned by others in similar concerns, contact it others, etc.

An entrepreneur is an agent who has, to perform several functions to mobilise and utilise resources and to create market. He ventures into a uncertain future to exploit the potentiality that exists. Therefore, entrepreneurship is a very risky proposition. Some people leave very cosy jobs to start their own enterprises. Some merchants who are earning, well put their hard-earned money at stake in manufacturing. Technologists and engineers start their own industry instead of going for safe jobs. All these persons have high achievement motivation. 'Like all achievement oriented people, they want to take personal responsibility, tend to persist in the face of a adversity, tend to take moderate risks and like to know the results of their efforts. They are innovative and fall of interpersonal competence. According to McClelland, they are unusually creative, having high propensity of risk-taking capacity and a strong need for a achievement.

Now, it is crystal cleat from the foregoing analysis that the majority of entrepreneurs are motivated to enter industry mainly because of four- factors;

First, they possessed technical knowledge or manufacturing experience in the same or related line.

Second, there was heavy demand for the particular product.

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Third, the Governmental and institutional assistance available facilitated, individuals to enter industry.

Fourth, they have enterprising attitude, what McClelland designates' an achievement motive', to do something independent in life.

At the end of this lesson, Appendix-A gives a quiz to test your entrepreneurial motivation.

2.9 The Acidevement Motivation

David McClelland has developed an Achievement Motivation Theory. According to this theory an individual's Need for achievement (n-Ach) refers to the need for personal accomplishment. It is the drive to excel, to strive for success and to achieve in relations to a set of standards. People with high achievement motive like to take calculated risks and want to win. They like to take personal responsibility for solving problems and want to know how well they are doing. High achievers are not motivated by money *per se* but instead employ money as a method of keeping sure of their achievements. Such people strive for personal achievement rather than the rewards of success. They want to do something better and more efficiently than it has been done before.

Need for achievement is simply the desire to do well not so much for the, sake of social recognition or prestige but for the sake of an inner feeling of personal of accomplishment. It is this need for achievement that motivates people to take risk. People with high need for achievement behave in an entrepreneurial way. Need for achievement stimulates the behaviour of a person to be an entrepreneur.

The following psychological factors contribute to entrepreneurial motivation:

1. Need for achievement through self-study, goal-setting and interpersonal, support.
2. Keen interest in situations involving moderate risk.
3. Desire for taking personal responsibility.
4. Concrete measures of task performance.
5. Anticipation of future possibilities.
6. Energetic or novel instrumental activity.
7. Organisational skills, etc.

Some societies produce a larger percentage of people with high need achievement. Entrepreneurship becomes the link between need achievement and economic growth. McClelland considers the need for achievement to be most critical to a nation's econolJlic development. He held that a strong 'inner-spirit' in individuals to attain is a measurable variable arising from a need, which the individual develop mainly in childhood and seeks to satisfy throughout his life. This 'inner spirit' which he called need for achievement, if higher, would produce more energetic entrepreneurs capable of generating rapid economic development. High need for achievement or ambition motivates an entrepreneurs to take risks, work hard, find new things, save more, reinvest the savings in industry and so on. The limit d empirical evidence of Durand supports the hypothesis that need for achievement contributes to entrepreneurial success.

McClelland rated the achievement motivation of different countries on the basis of ideas related to need for achievement contained in the children's stories. This has come to be known as n- factor rating. He established a correlation between n-factor rating and the prosperity of the countries a generation ahead. The criterion of n-factor rating was the inherent concern for achievement or the non-induced achievement motivation.

McClelland found that achievement motivation was lower among people of underdeveloped countries than among those of developed nations. Even in USA only about ten per cent of the people were actually high achievers. It is the low level of aspirations or ambitions that explains the lack of enterprise in under developed countries. Ambition is the lever of all motives and aimless life is a goalless game. Ambitions motivate men, activise them, broaden their vision and make life meaningful. Ambition is an index of one's resourcefulness. The ambition builds up a achievement pressure in the individual and provides the basis for McClelland's n factor. Ambition is the lever of all motives. The initiative and intentions of an individual are directed by his ambitions. It is the ambition that electrifies man's actions. Therefore, what matters is not merely the people but their aspirations and the means to achieve the goals. Therefore, it is the duty of leaders and teachers to build up ambition into the minds of the young people. However, ambitions differ from greed and windfall. Greed results in disaster and windfall makes one a speculator. Sometimes personal ambitions may come in the way of family aspirations or national aspirations. Unfulfilled ambitions are passed on to the next generation who may chase the goal with redoubled effort and vigour. Thus ambition nourishes-the achievement motivation and brings economic growth. The biggest obstacle to economic progress in countries like India is perhaps the limited ambition of people. The initiative of an individual is directed by his ambitions which nourish the entrepreneurial spirit and bring about economic development. Hence what matters is not merely the people and their talents but their aspirations. However, ambitions differ among individuals on the basis of the environment in which they are born and brought up. J.K. Galbraith has also attributed the backwardness of man Asian and African countries to lack of ambition.

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The Kakinada Experiment

Assuming need for achievement plays a vital role in promoting economic growth, Mcclelland has tried to induce achievement motivation in adult and provide them with an urge to improve their lot because uninduced achievement motivation results in long waiting before it bears fruit. Such an inducement may help break the barrier of "limited aspirations". For this purpose, he conducted experiments with groups of businessmen in America, Mexico and Bombay. Later he carried out a full-fledged programme in the Kakinada city of Andhra Pradesh.

Kakinada is a well-developed distinct town of a population of around one lakh with high literacy and a modest industrial structure. The objective of the programme was to break the barrier of "limited aspirations" by inducing achievement motivation. The project which began in January 1964 consisted of recruiting batches of personnel drawn from business and industrial community of this town and putting them through orientation programme at the Small Industry Extension Training (SIET) institute, Hyderabad. Fifty two persons grouped into three batches participated" in the programme. The training was designed primarily to stimulate the imagination and encourage introspection into personal motivation and community goals. The achievement development course contained four main items:

1. The individuals strived to attain concrete and frequent feedback.
2. The participants sought models of achievement i.e. watched those who have performed well and tried to emulate.
3. The participants imagined themselves in need of success and challenge and set carefully planned and realistic work goals.
4. The trainees were asked to control day dreaming by thinking and talk to themselves-in positive terms.

After two years those who had taken the course except for one Mexican case performed better than comparable men who did not take the course. The former made more money, got promoted faster and expanded business faster. In order to assess need for achievement, McClelland used the Thematic Appreciation Test (TAT) which presents the subject with an ambiguous picture. The individual is asked to interest what he sees and what is happening in the picture. Achievement related themes are then counted and the final score represents the individual's desire for high achievement.

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About the results of the Kakinada experiment, McClelland concluded that those participating in the programme displayed a more active business behaviour (51 per cent as against 25 per cent in the control group) and worked longer hours.

Significantly he found that caste, traditional beliefs or western ways of life did not determine the mental makeup of a participant. The training as was given at Hyderabad is likely to improve those who have a great yearning to do something and have the opportunity to do so in their business framework.

The Kakinada experiment is being utilised in a number of experiment that have recently initiated technical personnel to set up new enterprise of their own. In. Gujarat, various State agencies have combined to operate an Entrepreneurship Development Programme to help young people acquire the motivation necessary to become risk-takers. The Gujarat programme has been successful in persuading many persons to set up new enterprises in the small scale sector. It was found that the follow-up "package" assistance offered by the State agencies in Gujarat has been particularly instrumental in helping the participants to decide on the enterprise they wish to start. Similarly, in Andhra Pradesh, the Small Scale Industrial Development Corporation Ltd. (APSSIDC) has been assisting technically qualified persons to become entrepreneurs through orientation programmes of the SIET Institute. This is followed by specific assistance of providing developed land specially earmarked for such persons at nominal rates in the technocrats industrial estates.

Based on the experiences in Gujarat and Andhra Pradesh, the Ministry of Industrial Development has recently formulated schemes of helping technical personnel to become entrepreneurs. This programme consists of three months programme at selected centres spread all over the country, followed by financial assistance in terms of a subsidy on the interest on advances taken by the entrepreneur from the commercial banks so that the net interest paid by the entrepreneur himself does not exceed five percent. The programme is designed to enable a young person to know the real problems of setting up an enterprise, and to work out the feasibility report of his own project. During this period, he is also provided with opportunities to visit industrial establishments in his field of specialisation. Careful screening of the participant is done by the Selection Committee with the State Director of Industries as its Chairman so that the programme, would result in a sizable number of new enterprises. It is expected thousands of young persons will be provided with such training in the years to come.

Making people achievement oriented or inculcating in them need for achievement, is the objective of all such programmes. Thus, efforts are made through such programmes to spread ambition. Ambition is the mother of all motives. The intentions and the initiative of the man are directed by his ambitions. It is they ambition that electrifies man's actions. The common saying aimless life is a goalless game emphasis the importance of ambition in life. So, what matters most is not merely the men but their aspiration and what they do to reach their goal. It is the duty of the parents, the teachers and the leaders of the nation to instill ambition into the minds of the people. Naturally, ambitions differ from individual to individual on the basis of personal tastes and temperaments, and family to family and nation to nation depending upon the circumstances in which they are placed and the priorities which they have set for themselves. Sometimes, personal aspirations come in the way of family aspirations or national aspirations. Whoever it may be, aspirations do change with the changing times and values. For any man it may not be possible to cherish all his aspirations in his lifetime. So also a nation may not be able to fulfil all her ambitions within a span of 100 or 200 years. But the ambitions or aspirations which are unfulfilled are passed on to the next generation who may chase the target with redoubled effort and vigour. So, ambition which nourishes the achievements motivation brings in economic growth, brings in development not merely in anyone segment of the economy but it results in total growth.

2.10 Testing Entrepreneurial Motivation

Notes

Everybody cannot be trained to become an entrepreneurs. Persons having a minimum level of latent qualities can be more successfully groomed as entrepreneurs. It becomes, therefore, necessary to judge the latent potential of would be entrepreneurs. Given below is a quiz to test entrepreneurial motivation. You can test your likelihood of becoming a successful entrepreneur by ticking the answer that is a true indicator of your personality. Then' check your responses with the scores and the rating given here.

1. I try to take charge of matters when I am with people
   A Always C Sometimes
   B Usually D Never
2. I press myself to meet deadlines
   A Always C Sometimes
   B Usually D Never
3. I dislike taking orders from others
   A Always C Sometimes
   B Usually D Never
4. I strike to make my subordinates content
   A Always C Sometimes
   B Usually D Never
5. Given the odds, I can influence the outcome of a situation
   A Always C Sometimes
   B Usually D Never
6. 1 am called upon to lead projects or teams
   A Always C Sometimes
   B Usually D Never
7. I enjoy the challenge of being faced with a complex task
   A Always C Sometimes
   B Usually D Never
8. I doggedly see projects through to their conclusion
   A Always C Sometimes
   B Usually D Never
9. I achieve anything I set my mind on
   A Always C Sometimes
   B Usually D Never
10. Others say I have a sharp, analytical mind
    A Always C Sometimes
    B Usually D Never
11. Things that typically unnerve most people don't ruffle me
    A I strongly agree C I strongly disagree
    B I moderately agree D I moderately disagree

Notes

12. I seem to have much high energy level than most people
    - A. I strongly agree
    - B. I moderately agree
    - C I strongly disagree
    - D I moderately disagree
13. I believe things cannot be rushed
    - A I strongly agree.
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
14. I would fire a subordinate even if disliked the task
    - A I strongly agree
    - B I moderately disagree
    - C I strongly disagree
    - D I moderately agree
15. I would start a business even if it meant tightening my belt
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
16. I Will never balk from working long hours for lengthy periods
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
17. I have a high tolerance level and am not easily frustrated
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree.
18. I get bored easily with routine tasks and thrive on challenges
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
19. It is important for me to be the best in whatever I do
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
20. I don't mind working for a difficult person if he is competent
    - A I strongly agree
    - B I moderately agree
    - C I strongly disagree
    - D I moderately disagree
21. 1 fall in the following age bracket
    - A Between 20 and 28 years
    - B Between 29 and 37 years
    - C Between 38 and 46 years
    - D Over 47 years
22. My experience in the industry I would start a business is
    - A More than two years
    - B Between 12 and 24 months
    - C Between six and 12 months
    - D Nil
23. In the past three years, due to illness I have lost
    - A 0-5 days of work
    - B 6-10 days of work
    - C 11-15 days of work
    - D Above 16 days of work
24. I need the following amount of sleep to function effectively
    - A 5 or less hours
    - B 6 hours
    - C 7 hours
    - D 8 hours

THE SCORES:

1	A:5;	B:3;	C:1;	D:O
2	A:5;	B:3;	C:1;	D:O

Notes

3	A:5;	B:3;	C:1;	D:O
4	A:5;	B:3;	C:1;	D:O
5	A:5;	B:3;	C:1;	D:O
6	A:5;	B:3;	C:1;	D:O
7	A:5;	B:3;	C:1;	D:O
8	A:5;	B:3;	C:1;	D:O
9	A:5;	B:3;	C:1;	D:O
10	A:5;	B:3;	C:1;	D:O
11	A:5;	B:3;	C:1;	D:O
12	A:5;	B:3;	C:1;	D:O
13	A:5;	B:3;	C:1;	D:O
14	A:5;	B:3;	C:1;	D:O
15	A:5;	B:3;	C:1;	D:O
16	A:5;	B:3;	C:1;	D:O
17	A:5;	B:3;	C:1;	D:O
18	A:5;	B:3;	C:1;	D:O
19	A:5;	B:3;	C:1;	D:O
20	A:5;	B:3;	C:1;	D:O
21	A:5;	B:3;	C:1;	D:O
22	A:5;	B:3;	C:1;	D:O
23	A:5;	B:3;	C:1;	D:O
24	A:5;	B:3;	C:1;	D:O
	TOTAL			

THE RATING

0-32 Points

The Drone. Forget about launching a start-up; your work and life tendencies indicate that you are destined to remain a worker bee until you retire. But be warned: your distinct lack of initiative could hamper your career growth.

33-95 Points

The intrapreneur. While you exhibit entrepreneurial traits, you still don't quite make the grade. But don't be disheartened. As corporates demand more entrepreneurial skills from their employees, you will have a chance of showing your true mettle.

96-120 Points

The Entrepreneur. How come you're still making money for someone else? You've certainly got what it take to takes the plunge, so don't waste time. After all, post-libetalisation India offers the best opportunity yet to get to where the buck stops.

2.11 Entrepreneurship Development Programmes

Notes

Entrepreneur is the person with a vision, with the drive and with the ability to bear risk. He or She is a pivot around which the entire industry rotates because it is foresight, knowledge, optimism, hard work, persistence and efficient management of the enterprises that brings success to the enterprises. He or She is the 'spark plug'who transforms the economy of a country. This shows how important an entrepreneur is in the economic system of the country. Hence, it is said that an economy is an effect for which entrepreneurship is the cause.

The entrepreneurs should exhibit these under-mentioned qualities necessarily:

- **Initiative:** Initiation of any business activity should come from the entrepreneur. It is the entrepreneur who takes action that goes beyond job requirements or the demand of the situation. He does things before being asked or forced by the events.
- **Looking for Opportunities:** A successful entrepreneur is one who always is on the look for and takes action on opportunities. He must be always in readiness to exploit it in maximising the interest of the organization.
- **Persistence:** An entrepreneur should take repeated actions to overcome the obstacles that get in the way of reaching goals. He should never be disheartened by failures.
- **Systematic Planning:** Entrepreneurs develop and use logical, step-by-step, realistic and proper plans to accomplish their goals. They believe in systematic planning and its proper execution to reach goals.
- **Problem Solving:** Successful entrepreneurs are challenging by nature. They always try to find out ways and means to overcome the problems that come in their way. They also identify new and potentially unique ideas to achieve their targets.
- **Self-Confidence:** Successful entrepreneurs must have a strong belief in themselves and in their own abilities. They have full faith and confidence on their own knowledge, skill, and competency to complete a task or meet a challenge. They are not at all cowed down by difficult situations.
- **Assertiveness:** A successful entrepreneur must be assertive in nature so that he can assert his issues with others for promotion of interest of his enterprise. He tells others what they have to do and rebuke or disciplines those failing to perform as expected.
- **Persuasion:** A successful entrepreneur must be able to persuade others to do the work the way he wants them to do. He is able to convince others through his knowledge and competence. He asserts strong confidence in his own company's product or services. He must possess the ability to convince everybody - sellers, consumers, employees, creditors etc.
- **Information Seeking:** An entrepreneur is always in search of new ideas and information from various sources to help reach objectives or clarify problems. He can consult experts for business or technical advice. He personally undertakes research, analysis or investigation on his own to get information in realising his goals.
- **Concern for Quality Products:** Successful entrepreneurs always believe in high quality standards of their products with reasonable prices. They believe in excellence. They act to do things that meet or beat existing standards of excellence.
- **Commitment to Work:** Successful entrepreneurs do every sacrifice to get the task completed.

They put highest priority for accomplishing their objective. They are committed to their work. They also express a concern for satisfying their customers.

- **Efficiency Orientation:** Successful entrepreneurs find ways to do things faster with fewer resources at lower costs. They are always interested in devising new methods aimed at promoting efficiency.
- **Monitoring:** Successful entrepreneurs ensure regular monitoring of the working to achieve the organization's goal in the best possible manner. They personally supervise all aspects of their project to ensure completion of the work within the schedule time and cost.
- **Concern for Employee's Welfare:** Concern for employee's welfare should be at the top of the agenda of successful entrepreneurs. They give priority to improve the welfare of the employees because it is the employees whose dedication and commitment services lead to super performance of the organization.
- **Effective Strategist:** Successful entrepreneur develops and uses varieties of effective strategies to accomplish own objectives. They also evolve relevant strategies which will safeguard and promote the interest of the organization.

Notes

It has been rightly told that entrepreneurs are not born, they are made. Entrepreneurship does not emerge and develop of its own. Its emergence and development depends upon an environment in which entrepreneur can learn and discharge his/her assigned responsibility in an efficient manner. The government can also play a positive role in the emergence and development of entrepreneurship by providing training, incentives, concessions etc. and by creating an environment conducive for the growth of entrepreneurship. All these help the entrepreneurs to undertake creative actions thus, entrepreneurial development is essentially a process in which persons are injected with motivational drives of achievement and insight to tackle uncertain and risky situations, especially in business enterprises. But the real problem is how to develop entrepreneurship. Entrepreneurship Development Programmes (EDPs) are designed and developed to offer solutions to this problem.

2.12 Meaning of EDP

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

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

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

Notes

Entrepreneurship Development (ED) has, therefore, become a matter of great concern in all developing and under developed countries all over the world. It refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes.

Well known behavioural scientist David McClelland at Harvard University made an interesting investigation into why certain societies displayed great creative powers at particulars periods of their history? What was the cause of these creative bursts of energy? He found that 'the need for achievement' (*nach* factor) was the answer to his question. It was 'need to achieve' that motivated people to work hard. According to him, money making was incidental. It was only a measure of achievement, not its motivation. In order to answer the next question whether this need for achievement could be induced, he conducted a five-year experimental study in one of the prosperous district of Andhra Pradesh in India in collaboration with Small Industries Extension and Training Institute (SIET), Hyderabad. This experiment is popularly known as 'Kakinada Experiment'. As a part of this experiment, young persons were selected and put through a three month training programme and motivated to seek fresh goals. One of the significant conclusions of the experiment was that the traditional beliefs did not seem to inhibit an entrepreneur and that the suitable training can provide the necessary motivation to the entrepreneurs. The achievement motivation has positive impact on the performance of entrepreneurs. The Kakinada Experiment could be treated as a precursor to the present day EDP input on behavioural aspects. In fact, Kakinada Experiment made people realize the need for and importance of the entrepreneurial training, now popularly known as EDP, to induce motivation and competence among the young prospective entrepreneurs.

Role and relevance of Entrepreneurial Development Programme (EDP) in the process of economic development and growth of a nation is immense. Various EDPs are designed to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. Different programmes are designed for different trades, industries and big projects.

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

1. **Creates Employment Opportunities:** Acute unemployment has been a chronic problem of most of the underdeveloped and developing nations of the world. EDPs help solving the problem of unemployment by creating adequate employment opportunities in setting up of their own small and big industrial unit where the unemployed are absorbed.

   EDPs also help the unemployed to opt for se employment by choosing entrepreneurship as a career. In this way EDPs help the entrepreneur to get an opportunity to lead on independent and respectable life in the society and at the same time enable others to get gainful employment. Various programmes, schemes like Prim Minister's Rozgar Yojana, NREP (National Rural Employment Programme) and IR (Integrated Rural Development Programme) etc. have been initiated by Government of In to eliminate poverty and solve the problem of unemployment.

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

3. **Prevents Industrial Slums:** The towns and cities are highly congested and overcrowding due to the growth of industrial slums which results in overburdening of civic amenities and a lot of problems including adverse impact on the health of the people. EDPs help in solving the above problems by preventing the growth of industrial slums through dispersal of industrial units in different parts of the country including backward and rural areas. EDPs help entrepreneurs to know about the various schemes, incentives, subsides and infrastructural requirements for setting their enterprises, particularly in backward and rural areas. This checks migration of rural people to urban sector and thus controls the growth of industrial slums.

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

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

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

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

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

Objectives

Notes

The Industrial Service Institute (ISI) under the Department of Industrial Promotion (DIP) launched Entrepreneurship Development Programmes (EDPs) to give substance to the Government's policies for stimulation of economic growth, dispersing industries to rural areas and promoting the processing of local raw materials. The programme had sought to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. The EDP was considered as a part of the Industrial Policy which was articulated in the Five Year National Economic and Social Development Plans, with the following important objectives:

- To identify and train potential entrepreneurs.
- To develop necessary knowledge and skills among the participants.
- To help in analysing the various options to select the most appropriate product suiting to the entrepreneur and the market.
- To give a clear picture about the process and procedures involved in setting up an small scale Industrial unit or a bigger unit.
- To develop and strengthen entrepreneurial quality and motivation or need for achievement.
- To motivate the entrepreneurial instinct.
- To impart basic managerial skills and understandings to run the project efficiently and effectively.
- To analyse the environmental issues to be addressed relating to the proposed project.
- To develop various business-related skills of marketing, quality management production, distribution and human resource management etc.
- To make the potential entrepreneurs know about the possible risks and failures of the project and make them learn how to overcome these problems.
- To enable the entrepreneurs to communicate clearly and effectively.
- To develop team building, technology up-gradation, growth and above all broad vision about the business.
- To develop a passion for integrity, honesty and industrial discipline.
- To make him learn the basics of Industrial Laws, Factories Act and workers rights and expectations so that he can easily overcome the legal problems.
- To formulate the detailed Project Report or projects for the products.

2.13 Course Contents and Curriculum

The course content of an EDP are selected in line with the objectives of the EDP's. The training programme is usually for six week's duration, but these days one finds lots of variation in the time period of the EDP's, which ranges from three weeks to six months.

1. **Contents of Training Programme:** There are different kinds of participants having different backgrounds and qualities to attend the entrepreneurial development programme. The following types of training are provided during the time duration of programme:
2. **General Introduction to Entrepreneurship**: First of all, the participants are exposed to a general knowledge of entrepreneurship such as factors affecting small-scale industries, the role of entrepreneur in economic development, entrepreneurial behaviour and the facilities available for establishing small- scale enterprises.

Notes

3. **Achievement Motivation Training**: Development of achievement motive is essential in order to develop human resources. The main aim of achievement motivation training is to develop the need and desire to achieve, risk-taking, initiative and other such personal behavioural qualities, the self- awareness and self-confidence can be created among the participants through an achievement motivation programme which enable them to think positively and realistically. The training under this input aims at inducing and increasing the need for achievement among the participants. It is a crucial input of entrepreneurship training. It ultimately tries to make the participants to start their own business enterprise after the completion of the training programme. Motivation training can also help the participants to expand their business activities and their business venture.

4. **Managerial/ Management Skill**: Running a business or starting an enterprise requires managerial skills. Since a small or potential entrepreneur cannot employ management experts to manage his/ her business, he/ she needs to be imparted basic and essential managerial skills in the functional area like finance, production, marketing etc. It should also involve all the managerial factors such as planning, organization, coordination, leadership, supervision, control etc. The main aim of managerial training is to enable the participants to run the enterprise successfully.

5. **Support Systems and Procedures**: The proper training relating to support systems and procedure should be imparted to participants. The participants become able to understand the functioning of various agencies like commercial banks and financial institutions, industrial service corporations and other institutions dealing with supply of raw materials, equipment, marketing etc. This session of the training programme helps the participant to understand the support system, procedures for approaching them, applying and obtaining support from them and availing of the services provided by these agencies.

6. **Market Survey**: An opportunity to actually conduct market surveys to select the project is provided to participants. This will help them to understand the actual situation of the market.

7. **Fundamentals of Project Feasibility Study and Business Plan Development**: Under this input, the participants are provided guidelines on the effective analysis of feasibility or viability of the particular project in light of marketing, organization, technical, financial and social aspects. Knowledge is also imparted related to how to prepare the Project or Feasibility Report for certain products. The aim of any EDP should be such that the participants, by end of the programme have a business plan in their hand prepared by themselves and the able guidance of the trainer, mentors and local entrepreneurs.

8. **Technical Knowledge and Skills:** After the choice of a particular enterprise by a potential entrepreneur, the in-depth knowledge about the technical aspect of the trade should be imparted to him which will enable him to well-conversant with the process of manufacturing and trading in trade.

9. **Plant Visits:** In order to familiarise the participants with real life situations in small business, plant visits are also arranged. Such trips help the participants to know more about an entrepreneur's behaviour, personality, thoughts and aspirations. A number of field trips to industrial units can be very helpful to understand the economic aspects of the technology.

10. **Meet an Entrepreneur:** One of the important content of EDP should be '*Meet an Entrepreneur*'. The local entrepreneur should be invited to share his/ her experience with the trainees as this will encourage and motivate them to emulate the entrepreneur, who is just like them.

Notes

For developing the course content and curriculum, the course organisers should begin with a clear understanding of the feasibility and objectives of the programme, focusing on the development of ventures with the potential for rapid growth.

Determine from the start whether the real focus is entrepreneurship or self-employment; then decide on the objectives accordingly. Entrepreneurship Development should be about helping people start and grow dynamic businesses. It is useful to look at potential growth sectors or geographic areas and to explore criteria for selecting beneficiaries who are entrepreneurial. A needs assessment before programme formulation is useful. An analysis of high-growth economic sectors enables more focused support to potential entrepreneurs in the most promising sectors of the economy. To identify risks and determine the likelihood of success. Identify the factors that affect the levels of entrepreneurship in a country which include the perception of opportunity, degree of respect accorded to entrepreneurs, acceptance of wide disparities in income and a family environment which is oriented towards business. Think like an entrepreneur when designing entrepreneurship development projects, and involve private sector representatives in the design process.

11. **Develop Criteria to Select the Target Group that is the Most Entrepreneurial:** The selection of those who are most likely to succeed as entrepreneurs should be based on clear and transparent criteria. Potential entrepreneurs display initiative and ambition, have business sense and foresight, and are decisive. Promising entrepreneurs should be nurtured and helped to serve as role models ain mentors for their communities. Measures to target groups rather than individuals can mitigate income inequality and be effective in empowering disadvantaged groups, especially women, youth and minorities.

12. Identify the Market through an Intensive Preparation Process, Searching for Innovate and Growth Potential An EDP should help aspiring entrepreneurs to recognize and design unique, innovative business opportunities, based on an analysis of local conditions and their own specific skills. It can help the entrepreneur to diversify based on his/ her basic knowledge of a product or skill in a certain sector without distorting the local markets. In a truly entrepreneurial approach, innovative capacity matters more than the size of the market. Diversification can be accomplished by introducing a novelty or new product feature, stressing quality or value added, anticipating a new market or - even creating a market. Business opportunity surveys may provide advice to potential entrepreneurs, but they must be analyzed in the context of the specific market situation in each case. To determine market potential, it is useful to conduct a need assessment or demand survey before programme formulation.

13. **Provide Support for Conduct of EDPs through Efficient Organizations"** Donors should identify those organizations that are well situated to implement innovative and cost-effective EDPs. A good Entrepreneurship Development Institute should often be characterized by being development oriented and having operational autonomy, business connections and flexibility for promotional, fund-raising and coordination tasks. It could be a University, Non Government Organization (NGO), a private consulting company or a specially established foundation based on public-private partnerships. Alarge enterprise which faces the prospect of large work-force reductions can soften the social costs of the resulting unemployment by sponsoring EDPs. Entrepreneurship Development Institutes based in a private-sector setting should have easy access to business development services that already exist in the community. The institute does not need to possess all the expertise necessary; it can call on other available specialists in the fields of financing, counseling, marketing, quality assurance, and other support.

14. **EDPs may have to include Support"** Entrepreneurship orientation and awareness, improvement of business performance for growth and competitiveness etc. Entrepreneurship Development training is usually more effective when linked to finance and other services such as marketing, quality assurance and productivity improvement. A balance must to be struck between overloading an EDP with numerous services needs and providing an effective, integrated package and addressed by coordination between programmes or entrepreneurship development providers so that each provides a different and specialized service. Programmes usually begin with developing competencies and move on to supporting the trained candidate with counselling and other business support. One mechanism for integrated support is business incubators. An incubator nurtures early-stage businesses through continuing entrepreneurship development, counseling and administrative services and by accessing external professional support and facilities all under one roof. It is particularly relevant where intensive assistance is appropriate.

Notes

2.14 Phases of Entrepreneurship Development Programmes

An Entrepreneurship Development Programme consists of the following three phases:

Initial or Pre-training Phase

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

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

Training or Development Phase

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

- Is he/ she attitudinally tuned very much towards his/ her proposed project idea?
- Is there any change in his/her entrepreneurial outlook, role and skill?
- How should he/she behave like an entrepreneur?
- What kind of entrepreneurial behaviour does the trainee lack?

- Is he/she skillful in choosing the right project, mobilizing the right resources at the right time?
- Does he possess the knowledge of technology, resources and other related entrepreneurial knowledge?

Notes

Some of the questions listed above also answer the basic underlying assumptions in designing a suitable training programme for the potential entrepreneurs. Having trained the trainees, the trainers need to ask themselves as to how much, and how far the trainees have moved in their entrepreneurial pursuits.

Post-training or Follow-up Phase

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

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

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

2.15 Evaluation of Entrepreneurship Development Programmes

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

Developing entrepreneurship has become a movement in India in the recent years. EDPs have been considered as an effective instrument for entrepreneurship in the countryside. Hundreds of EDPs are conducted by more than 700 organizations to impart entrepreneurial training to participants in thousands. The main objective of these EDPs is to train enterprise creators. Having spent lot of public money and effort for organising EDPs it was also necessary to evaluate whether the objectives of EDPs are fulfilled or not. In simple words, there is a need to have a data as to how many participants of these EDPs have actually started their own enterprises after completing the training. With this feedback evaluation of EDPs was imminent. So far some 16 evaluation studies have been conducted by various organizations and individual researchers. No doubt, these studies vary in their objectives, coverage and content. But, one common thread in all of them is the assessment of effectiveness or impact of EDPs, howsoever, loosely defined. One of the earliest attempts in this direction was made by a team of researchers and experts appointed by the Gujarat Corporations to evaluate the effectiveness of EDPs. One of the most comprehensive evaluation studies on EDPs was one carried out by the Entrepreneurship Development Institute of India, Ahmedabad (Awasthi and Sebastian,

1996). It was observed that one out of every four trainees (26 per cent) actually started his/her enterprise after undergoing entrepreneurial training. However, the expected final start-up rate was slightly higher around 32 per cent. About 10 per cent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If not helped effectively, they may join the category of those 29 per cent trainees who have already given up the idea of launching their ventures. According to the secondary sources, viz., family, friends and neighbours, out of 430 trainees who could not be contacted personally during this field survey, 17 per cent have given up the idea of venture launching as they are engaged in other activities. According to Awasthi and Sebastian (1996), the performance of EDPs across the states and across the ED organization has not been uniform. The actual startup rates are observed to be oscillating between 9 per cent and 56 per cent, bringing down the overall national start-up rate to about 26 per cent. This by any count cannot be considered as impressive performance. And in this non impressive performance lies the need for looking at the problems and constraints of EDPs.

Notes

Different studies on evaluation of EDPs have highlighted a few issues. EDPs suffer on following counts. The problems and lacunae are on the part of participants and steps in the process - should it be the trainers and the trainees, the ED organization, the supporting organizations, and the government bodies involved. The important problems EDPs face are listed as follow:

- Trainer-motivations are not found up to the mark in motivating the trainees to start their own enterprises.
- Entrepreneurship Development organizations lack in commitment and sincerity in conducting the EDPs (Patel, Trivedi and Raval, 1984). In some cases, EDPs are used as a means to generate surplus (income) for the Entrepreneurship Development organizations.
- Non-conducive environment and constraints make the trainer-motivators' role ineffective (Awasthi, 1989).
- The apathetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.
- Selection of wrong trainees also leads to low success rate of EDPs.

It is clear that the problems are not with the strategy but with its implementation. One way of evaluating the EDPs is to assess their effectiveness in developing 'need for achievement' among the entrepreneurs. This is also called 'the qualitative evaluation' of EDPs. McClelland and Winter (1969) used the following criteria to assess the effectiveness of EDPs in motivating the entrepreneurs:

- Activity level of the respondents;
- New enterprise established;
- Total investments made;
- Investments in fixed assets made
- Number of people employed;
- Number of jobs created;
- Increase in profit;
- Increase in sales;
- Quality of product/service improved; and
- Quicker repayment of loans.

Notes

In other behavioural experiments (Sah, et al, 1974) the impact of EDPs is measured with the help of indices relating to the entrepreneurial behaviour. The entrepreneurial behaviour is measured on the following four dimensions:

- Planning orientation,
- Achievement orientation,
- Expansion orientation, and
- Management orientation.

The EDPs are to be evaluated on the following basis:

Programme Objectives

Evaluation of an EDP may begin with an assessment of the philosophy or the central objectives of the programme. The agency conducting the programme must be clear about the purpose underlying entrepreneurial development. The objective may be to increase production, to generate employment, to uplift certain people, etc. It becomes easier to assess the goals when they are clearly defined.

Whatever may be objectives an agency is likely to start an EDP with a certain set of assumptions. These assumptions might be based on experience, research or pure hunch. These assumptions should be evaluated along with the objectives of the programme. One agency in India has based its programme on the following assumptions.

- Everyone cannot be an entrepreneur. An individual must have certain traits in order to be successful entrepreneur.
- The traits required for successful entrepreneurship can be identified and measured through psychological test and certain social indices.
- Persons who possess these traits will be more successful than those not having.
- Persons possessing such traits can be trained to further develop them on other dimensions of entrepreneurship too.

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

Selection Strategy and Procedures

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

A three-stage selection procedure is followed in this case. It begins with screening through a carefully designed application blank which collects data on dimensional mentioned above. This is followed by psychological tests and behavioural exercises and games meant for assessing certain other qualities. Finally, personal interviews are held.

Several tests may be used to judge the effectiveness of selection procedures. The proportion of those setting up enterprise from the selected group as compacted to those from the rejected group can be one such test. The 'entrepreneurial movement' in the selected group should be higher than those in the rejected group. Any occupational movement say from unemployment to service, service to trade and trade to manufacturing may be treated as entrepreneurial movement.

Training Programme

Another area of evaluation in the contribution of the training programme. This covers the contribution or otherwise of the curriculum and its design, the content of the programme, the faculty the sharing of practical experiences and even the follow-up. Curriculum design deals with issues like natural (full time or part time) and duration of the programme, classes schedule, components of the programme, the type of preparation required on the part of the students and the faculty.

For example, a programme for unemployed persons can be a full time one and of shorter duration. But a programme for employed person should be part time so that it does not clash with service. In order to judge the extent to which the training has increased the possibility of training he trainers into successful entrepreneurs, the following criteria may be used.

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

Organizational Policies and Structures

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

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

2.16 Summary

Notes

Development of entrepreneurial competencies involves various steps, viz, acquiring knowledge and understanding, competence recognition, self assessment, application of competence and feedback. Adoption of these methods would assess a person to identify the competencies he is possessing alongwith the areas of strengths and weaknesses and to determine whether to retain or quit a particular competence. Entrepreneurial competencies or traits are necessary for entrepreneurial success. This requires that proper knowledge of these competencies should be injected in human behaviour through education and training. Some of the major competencies includes innovativeness, leadership, high achievement motive, communication skill, decision making ability, creativity, ambitious, change agent, good organiser and risk bearing capacity.

The major components of entrepreneurial competencies involves knowledge, skill and motive. Knowledge indicates collection and retention of information. However, mere knowledge is not sufficient for a person to perform something. For this, skill is required. Skill is defined as the application of knowledge. It enhances the ability to display behaviour. Again, mere possession of skill and knowledge is also not sufficient. The person should have the willingness to perform. This is motive. Therefore, programs and methods aimed at developing entrepreneurial competencies should examine that development in knowledge, skills and motive goes hand in hand.

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

2.17 Glossary

- *Proper Planning:* He formulates realistic plans and implements them rigorously.
- *Innovation Concept:* This concept was propagated by Joseph A. Schumpeter. He assigned a crucial role of 'innovation' to the entrepreneur.
- *Professional Concept:* According to this concept, entrepreneurship is regarded as a profession. It is viewed that entrepreneurship can be developed through education and training.
- *Communication Ability:* This ability pertains to communicate effectively. As a leader an entrepreneur communicates effectively with all concerned such as financiers, employees, customers, suppliers, creditors and all who are concerned with the new enterprise.
- *Tactful:* An entrepreneur should be tactful and should have the capacity to make rational and quick decisions.
- *Leadership:* An entrepreneur must have the ability to lead and manage.

- *Communicator:* An entrepreneur should be a good communicator. He should communicate plans and policies to his subordinates in a proper and effective manner.
- *Optimistic:* An entrepreneur should be optimistic in his approach.

Notes

2.18 Review Questions

1. What is Entrepreneurial Competence?
2. Discuss the major entrepreneurial competencies?
3. State in brief the procedure of developing entrepreneurial competencies?
4. Discuss the different development models of entrepreneurship?
5. 'Entrepreneurs are made, not born.' Discuss.
6. What are the factors that motivate people to go into business?
7. What is meant by entrepreneurial motivation? Is it necessary for a successful entrepreneur? Discuss.
8. What are the factors that motivate people to go into business?
9. What do you understand by achievement motivation? How can achievement motivation be developed?
10. Write an explanatory note on 'Kakinada Experiment' on achievement motivation.
11. It is said that ambition is the lever of all motives. Do you agree? Comment.
12. Explain the factors which prompt people to become entrepreneur.
13. 'Entrepreneurs are made, not born'. Explain and give reasons for your explanation.
14. What do you understand by EDPs? Explain.
15. Discuss and explain the need and objectives of EDP.
16. Discuss the various phases involved in EDP?
17. 'EDP is process of 'grooming' entrepreneurs'. Explain the statement.
18. On what parameters EDPs should be evaluated? Discuss.

2.19 Further Readings

- *Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing.
- Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi. N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons. P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.
- Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.
- http://kalyan-city.blogspot.com/2010/11/entrepreneurship-what-are-its- features.html

Notes

UNIT-3

ROLE OF GOVERNMENT IN ENTREPRENEURSHIP DEVELOPMENT

(Structure)

3.1 Learning Objectives

After studying the chapter, students will be able to:

- Discuss the Policy Initiatives for Entrepreneurial Growth; Incentives and Subsidies;
- Explain the Incentives and Subsidy;
- Discuss the Tax Holiday for the Power Sector;
- Describe the Subsidised Consultancy Services;

- Describe the Industrial Licensing: July 1991 Changes;
- Discuss the Institutional Support to Entrepreneurs;
- Explain the Small Scale Industries Board (SSIB);
- Describe the Small Industries Development Corporation (SIDCO);
- Discuss the Types of Industrial Estates.

Notes

3.2 Introduction

In the post-independence era, the Government had to synchronise and harmonise the twin considerations of rapid industrialisation and the parameters of a welfare state. The Plan objective of economic growth with social justice was kept in view in the overall strategy of industrial development. All segments of the industry large, medium and small-were assigned a mutually complimentary role with a view to facilitate an integrated and harmonious growth of Industrial sector as a whole. In the context of the major problems of poverty and unemployment faced by the Indian economy, the development of Small Scale Industries (SSI) was considered essential because of its being labour intensive and having implications for equity, flexibility, capability to contribute to decentralisation, to promote entrepreneurship, optimum use of local resources and talents, etc.

Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI-have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development.

3.3 Policy Initiatives for Entrepreneurial Growth; Incentives and Subsidies

Since independence, a series of six Industrial Policy Resolutions aimed at promoting industrial growth and determining a pattern of State intervention and assistance have been announced by the Central Government. While spelling out the framework of the basic and strategic industries, the Industrial Policy Resolution, 1948, realised Cottage and Small Scale Industries to be particularly suited for better utilisation of local resources and achievement of 'local self- sufficiency' in respect of certain types of industrial goods. The policy of supporting the cottage, village and small industries took shape in 1956 when the Government decided to initiate measures to build the competitive strength of small and village industries. The 1956 Resolution underlined the role that the SSI sector could play, in providing employment opportunities, mobilising local skills and capital resources, and in the integrating process with large industrial sector.

The Industrial Policy Statement, 1977, stressed upon wider dispersal of cottage and small industries in the rural areas and small towns. The concept of District Industries Centres was also mooted so as to provide services to small industries under one roof. While the Industrial Policy Statement of 1980 was important from the point of view of ancillarisation and creation of nucleus plants for the growth of the sector, that of 1990 emphasised the steps for enhancing the contribution of the SSI Sector in overall exports, employment generation, and dispersal of industries in rural areas.

Notes

The Industrial Policy measures announced in 1991 laid special thrust on promotion and strengthening of small, tiny and village industries. Besides effecting changes in investment limits, equity participation, etc., a. new scheme of Integrated Infrastructure Development for SSIs with the participation of State Governments and Financial Institutions was initiated and a pro-active role for NGO sector was mooted. In order to protect their interest and facilitate their rapid development, the Government in pursuance of its policies, have initiated a number of support measures from time to time which include policy of reservation, revision of investment ceilings, modernisation, technology upgradation, marketing assistance, etc. The emerging economic scenario in the changed 11beralised and competitive economic environment, has necessitated structural and fundamental changes in the policy framework put into place for the development of this vital sector of the economy. Accordingly, there has been a shift in focus from 'protection' to 'promotion'. In the post reform period, a number of steps including partial dereservation, change in investment limits, facilitating foreign participation, establishment of growth centres, export promotion, marketing assistance and incentives for quality improvement, etc. have been taken by the Government for strengthening of this sector. The highlights of the Small Scale Industries Policy of August 1991 are as follows:

- The investment limit for the tiny sector was raised to ₹ 5 lakhs from ₹ 2 lakhs. This limit has now been raised to ₹ 25 lakhs.
- Here after irrespective of their location would be recognised as small scale industries.
- The small Industries Development Organisation (SIDO) has been recognised as the nodal agency to support the small scale industries, export promotion.
- An export development centre would be set up in SIDO to serve the small scale units through its network of field officers to further augment export activities of the sector.
- A technology development cel1 (TDC) will be set up in SIDO which could provide technology inputs to improve quality and competitiveness of product of sm[illegible] sector.
- The scheme for the handloom sector, which contributed 30% of the total textile production in the country, would be redesigned keeping in view the local and regional needs. It would be the policy of the Government to promote handloom to sustain employment in rural areas and to improve quality of life for handloom weavers.
- The National Small Industries Corporation (NSIC) would concentrate on marketing of mass, consumption items under common brand name and organizational links between NSIC and SSIDCs would be established.
- The scope of the national equity fund scheme will be widened to cover projects upto ₹ 10 lakhs for Equity Support (Upto 15 per cent).
- The Single Window loan scheme has also been enlarged to cover Projects upto ₹ 20 lakhs with working capital margin upto ₹ 10 lakhs.
- Small Scale units can have equity support to the extent of 24% of the total investment from the medium and large scale industries, Public Undertakings, NRIs or foreign investment.

In conformity with the socio-economic objectives of the national development plans, the development banks have introduced a number of promotional innovative schemes to be operated either separately or jointly. Some of the important schemes are soft loan scheme, seed capital assistance, risk capital assistance, concessional schemes, etc. In addition, IFCI is operating different subsidy schemes for new and small entrepreneurs. Recently, it has introduced eight consultancy schemes and four interest subsidy schemes for the benefit of the entrepreneurs.

Notes

The SSI Sector has proved its mettle even in the changed liberalised economic environment of the country. The steps required for opening up of the economy have affected the operations of this sector, throwing/open new opportunities and challenges at the same time. The need of the hour undoubtedly is to provide sustenance through suitable measures to strengthen it for converting the challenges into opportunities for scaling new heights.

In order to enable the Government to place more focussed attention on the problems of the, SSI Sector, a new Ministry of Small Scale Industries and Agro and Rural Industries has been created on 14th October 1999, under the Independent Charge of a Minister of State. To give a direction -and perspective to the development strategy, the Minister in-charge of Small Scale Industries and Agro & Rural Industries announced an "Agenda for the Millennium" which places special emphasis on evolution of a new policy framework, improved supply of credit, better infrastructural facilities, and impetus for modernisation and technology up gradation in small scale industries. The Agenda takes cognisance of the special role to be played by Information Technology, sunrise industries, hi-tech industries, export potent industries, and at the same time stipulates all possible steps to meet the requirements of the tiny and micro- enterprises which constitute over 95 per cent of total small scale industrial units in the country.

Knowing of the crucial role of small enterprises, and the problems being faced by them, the Planning Commission, in 1999, constituted a Study Group under the Chairmanship of Dr. S.P. Gupta, Member, Planning Commission, on Development of Small Enterprises. The Study Group has submitted its report on 13th July 2000.

3.4 Incentives and Subsidy

The term "incentive" includes concessions and bounties. 'Subsidy' denotes a single lump sum which is given by a government to industry. It is granted to an industry which is considered essential in the national interest. The term 'bounty' denotes bonus or financial benefit which is given by a government to an industry to help it compete with other units in a nation or in a foreign market. It is given in proportion to the output. Bounty confers benefits on a particular industry, while a subsidy is given in the interest of the nation.

These subsidies and incentives offer the following advantages:

1. They act as a motivational force which attract the prospective entrepreneurs to enter into manufacturing line.
2. They encourage the entrepreneurs to start industries in backward areas.
3. By providing subsidies and incentives the Government can: (i) bring industrial development uniformly in all regions, (ii) develop more new entrepreneurs which lead to entrepreneurial development, (iii) increase the ability of entrepreneurs to face competition successfully, and (iv) reduce the overall problems of small scale entrepreneurs.

Schemes of Incentives in Operation

Various incentive schemes offered by Central and State Governments including Union Territories to the entrepreneurs in India are as follows:

Incentives Under The Licensing Regulations

When the controls dominate, a relaxation of the control itself is a significant incentive. A government notification states that the Central Government is of the opinion that directions for a further positive production orientations are to be given to the economy to increase production by removing all constraints to the maximum extent possible. Now, therefore, in exercise of powers conferred by Section 29(B) (i) of the Industries (Development and Regulation) Act, 1951, the Central Government hereby exempts all undertakings registered under the said Act from the operation of Section 13(i) (d): "Such exemptions are quite many and resorted to frequently".

Notes

Incentives For Development of Industries In Backward Areas

As a part of the measures to ensure balanced regional development, Government of India has announced a number of concessions and facilities for industries established in selected backward districts/areas from time to time. The Central government has declared 247 districts (covering about 70% of the areas in the country) as backward and eligible for the subsidies. Many State Governments have added to this list for the purpose of State level subsidies. The programme of assistance drawn up for setting up industries in the selected backward area/district is briefly indicated below:

1. **Concessional finance:** All India financial institutions namely, Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, extend financial assistance on concessional terms to all, new and existing industrial projects having expansion schemes irrespective of the project costs located in the 247 districts selected by the government. The concessions given by these financial institutions are in the form of lower interest rate viz., 9.5% p.a. against the normal rate of 11%, a reduced commitment charge of 0.5% (which could be waived in exceptional cases), lower underwriting commission of 1.25% and 0.75% for shares and debentures respectively, initial moratorium period upto five years, longer amortisations of 15 to 20 years and participation in the risk capital on selective basis. Besides these, the IDBI follows a flexible attitude in respect of promoter's contribution, margin requirements, and rescheduling of repayments during the tenure of the loan. Depending upon the merits of specific cases in respect of reliance, the IDBI charges a special rate of 6% with the primary lender's rate being subjected to a ceiling of 9.5%. The normal rate of refinance is 6% with ceiling of 12.5% by the primary lending institution.
2. **Capital Investment Subsidy:** The granting of cash subsidy on the capital investment is called capital investment subsidy. It will be usually in the form of outright grant of 10% to 20% of the amount of capital invested in the industrial units in areas specified to be backward regions/districts. It is offered by the Central Government.

Out of the districts declared backward by the planning commission, 101 districts/areas have been selected to qualify for Central investment subsidy. These districts/areas, have been selected on the pattern of six districts/areas for industrially backward states and three districts/areas for other states. The salient features of the scheme are given below:

1. **Quantum of subsidy:** When the scheme was originally announced in 1971, 10% of the investment made on fixed capital investment viz., land, building, and plant and machinery, was to be reimbursed as an outright grant subject to a ceiling of ₹ 15 lacs. This was raised to 15% with effect from 1-3-1973. The maximum amount payable is, however, restricted to ₹ 15 lacs per industrial unit.

   After the division of backward districts into (A), (B) and (C) categories the subsidy will be: (A) 25% subject to a maximum of ₹ 25 lacs; (B) 15% subject to a maximum of ₹ 15 lacs (c) 10% subject to a maximum of ₹ 10 lacs.
2. **Eligibility:** An industrial unit other than those run departmentally which made investments in land, building, and plant and machinery on or after 1-3-1973 and located in the above category of districts/areas is eligible to claim subsidies. Existing units taking into expansion, modernisation and diversification are also eligible to claim subsidy.

Notes

3. **Procedure for Claiming Subsidy:** The State Governments/Union Territory administrations have nominated disbursing agencies to administer the scheme of investment subsidy. State Financial Corporation and financial institutions such as IDBI, IFCI, and ICICI are some of the agencies selected for disbursements of subsidy under the scheme. Each industrial unit being set up in the specified district gets registered with the Director of Industries for claiming investment subsidy. The units desirous of getting investment subsidy may approach the disbursing agencies who in turn make recommendation after verification etc. to the State level committee which has been appointed in each State/Union Territory.

Tax holiday to new industrial undertakings set up in backward States and Union Territories

Under section 80-IA of the Income-tax Act 1961, deduction is allowed in computing the taxable Income in respect of profits derived from new industrial undertaking or a ship or the business of a hotel. The deduction under this section is allowed in the case of companies, at 30 per cent of profits in respect of the assessment year relevant to the previous years in which the hotel starts functioning or the industrial undertaking starts manufacturing or the ship is first brought to use and nine assessment years immediately succeeding the initial assessment year. In the case of taxpayers being a co-operative society, similar deduction is allowed for the initial assessment year and eleven succeeding years, the deduction is allowed at the rate of 25% in the case of non-corporate assesses. Likewise in the case of new hotels set up in a hilly area or a rural area or a place of pilgrimage or such other place as the Central Government may specify, the deduction is admissible at the rate of 50 per cent of the profits.

With a view to giving substantial thrust for encouraging the industrialisation in States and Union Territories which are industrially very backward, the Finance Bill proposes to provide incentive for dispersal of industrialisation in remote and industrially backward regions. It is proposed to allow, in respect of any new industrial undertaking, located in a State or Union Territory specified in the new Eighth Schedule of the Income-tax Act, which starts manufacturing or production after 1.4.1993, deduction under section 80-IA at the rate of 100 per cent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which the industrial undertaking begins manufacture or production. For the subsequent assessment years, deduction from the profits of such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 per cent in the case of Non-corporate assesses. The deduction, at the enhanced rate and the normal rate together, will be limited to twelve assessment years in the case of co-operative societies and ten assessment years in the case of other assesses, as in the existing provisions.

States and Union Territories which are industrially very backward have been identified as those in which, according to the backward area Notification S.O. No. 165 dated 19-2-1986, all the districts are industrially backward. These States and Union Territories are Arunachal Pradesh, Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura and the Union Territories of the Andaman and Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep, and Pondicherry. The above list corresponds to the existing list of industrially backward areas specified by the Ministry of Industry.

The proposed amendments will take effect from 1st April, 1994 and will, accordingly, apply in relation to assessment year 1994-95 and subsequent years.

3.5 Tax Holiday for the Power Sector

Under section 80-IA of the Income-tax Act, 1961, deduction is allowed, in computing the taxable income, in respect of profits derived from a new industrial undertaking or a ship or the business of a hotel.

Notes

With a view to substantially increasing the power generation capacity in the country the Bill proposes to provide for a full tax holiday for five years and there after a partial tax holiday in respect of profits and gains of industrial undertakings set up any where in India for generation and distribution of power. Such undertaking which begins to generate power on or after 1-4-1993 will be allowed deduction under section 80-IA, at the rate of 100 percent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which the undertaking begins generation of power. For thy subsequent assessment years, deduction from the profits from such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 per cent in the case of non-corporate assesses. The deduction, at the enhanced rate and the normal rate together, will be limited to twelve assessment years in the case of cooperative societies and ten assessment years in the case of other assesses, as in the existing provisions.

The proposed amendments will take effect from 1st April, 1994 and will, accordingly, apply in relation to assessment year 1994-95 and subsequent years.

3.6 Subsidised Consultancy Services

Small entrepreneurs proposing to set up rural, cottage, tiny or small scale units, or to expand/ diversify/modernise their existing units can get consultancy services at a low cost from the technical consultancy organ is at ions (TCO's) sponsored by All India and State level financial and promotional institutions and banks. They have to pay only 20% of the fees charged by a TCO for assignments such as preparation of feasibility studies, project reports, market studies, pre-investment studies, diagnostic studies and special studies and applications for seeking financial assistance from financial institutions technical assistance, etc. The entire balance of 18% or ₹ 5,000 whichever is lower is subsidised by IFCI in the case of assignments relating to the use of biogas or renewable/alternative sources of energy. For units identified or assignments covering physically handicapped or scheduled caste/tribe entrepreneurs, 100% of the fees of the TCO for the assignment or ₹ 6,000 whichever is lower is subsidised. If any entrepreneur is unable to take effective steps to set up the project within one year from the date of completion of consultancy assignments he will not be entitled to prevent the use of the report in any form or manner by the TCA or other entrepreneurs. An entrepreneur who has already set up a project at one place and wishes to setup an entirely different project at another place may be considered eligible to subsidy for the second project also. In any case, the subsidy will not be made available to the same entrepreneur for more than two projects.

Subsidy For Market Studies

New entrepreneurs (locally based or non resident Indians) entering the field of Medium and/or medium large industry for the first time in the country can have market studies for their products undertaken by TCA at a cheaper cost. The fee for the preparation of a market study payable to TCA would be subsidised by IFCI up to 75% of the cost or ₹ 15,000 whichever is lower. The subsidy will be made available only to the TCA with which one or more financial institutions or Development agencies at the State or All India level are associated as shareholders(s) or member(s) of board of management. The entrepreneur will have to bear only 25% of the cost of the study.

Adoption of Indigenous Technology

Promoters of projects involving commercial exploitation of indigenous technology can get assistance in the form of subsidy covering the interest payment due to IFCI during the first three years of operations of the project subject to ceiling of ₹ 5 lakhs a year. In appropriate cases; the total subsidy could be upto ₹ 25 lakhs over a period of five years. The subsidy would be reimbursed to the concern after it makes payments of installments of interest to IFCI on due dates. For being eligible for concessional assistance, the project should be set up with loan assistance from IFCI and be based on indigenous technology. The right to use this technology must have been acquired by the agency implementing the project from the concerned institution, viz, Government laboratories, public sector companies, universities, or any other institution recognised by the Government of India. The technology should be one which has not already been exploited on a commercial scale in the country, and a certificate to this effect will have to be obtained from the concerned institution. The technology should be basic to the manufacture of the proposed product and not merely peripheral and the project must be of national priority as indicated by government from time to time.

Notes

Special Facilities for Import of Raw Materials

The Import Policy of 1978-79 has introduced special concession of import of raw materials in the case of industrial units set up in backward areas or by graduates/ diploma holders in professional subjects or by ex-servicemen persons belonging to scheduled castes scheduled tribes. The maximum value of the licence shall be ₹ 5 lakhs in respect of new or proposed small scale units instead of ₹ 3 lakhs. They will also be eligible for preferential treatment in the matter of canalised items.

Transport Subsidy

The transport subsidy scheme, 1971 envisages grant of a transport subsidy to industrial units in selected areas to the extent of 50% of the transport cost of raw materials which are brought into and finished goods which are taken out of the selected areas.

The scheme covers the State of Jammu and Kashmir, Himachal Pradesh, hilly areas of Uttar Pradesh and North Eastern Region comprising of States of Assam, Meghalaya, Nagaland, Tripura and the Union Territories of Arunachal Pradesh, Andaman and Nicobar Islands, Mizoram and Lakshadweep.

Subsidy is paid on transport costs between the selected railheads and location of the industrial units in the above states/Union Territories.

The highlights of the scheme are:

1. Industrial units in the above-mentioned areas will be given transport subsidy in respect of the raw materials brought into and the finished goods which are taken out of such areas.
2. No transport subsidy will be allowed for the internal movement of raw, materials and finished goods within the State of Jammu and Kashmir and the North Eastern Region.
3. In the case of Jammu and Kashmir, the transport subsidy will be given between the railhead at Pathankot and the location of the industrial unit or between the location of the industrial unit and Jammu, whichever is nearer.
4. Barring Jammu and Kashmir, the transport subsidy will be given on the transport cost between Siliguri and the location of the industrial unit in the North Eastern States. While calculating the transport cost, the cost from Siliguri to the railway station nearest to the industrial unit will be taken into account in respect of raw materials and finished goods. If any other mode of transport is used the cost will be limited to the amount which the industrial unit may have paid, if it had used the above mode of transport.
5. Freight charges for the movement of goods by road will be determined on the basis of the transport rates fixed by the government of a State/ Union Territory from time to time, or the actual freight paid, whichever is less.
6. The cost of loading or unloading and other handling charges will be taken into account for the purpose of determining transport costs.

Notes

7. All new industrial units located in the selected areas will be eligible for a transport subsidy equivalent to 50% of the transport cost of raw materials and finished goods.
8. Existing industrial units are also eligible for a 50% subsidy in respect of additional transport costs of raw materials and finished goods resulting from a substantial expansion or diversification effected by them after the commencement of the Transport Subsidy scheme.
9. The transport subsidy will cover 50% of the transport charges on the movement of steel from the Gauhati Stockyard of Hindustan Steel Limited to the site of an industrial unit in the North-Eastern Region.
10. The Directorates of Industries in the States/Union Territories will lay down system of pre-registration of industrial units which are eligible for the transport subsidy.

Incentives Available to SSI Units in Backward/Rural Industries Project

Areas

Certain special facilities and incentives which have been provided to the backward districts are enumerated below:

1. An outright subsidy of 15% on the fixed capital investment up to a maximum of ₹ 15 lakhs is admissible to the units being set up in backward areas.
2. Allotment of factory or factory sheds in industrial estates/areas and industrially developed colonies on easy terms.
3. Interest-free loans in lieu of inter-state Sales tax paid/payable by SSI units are available up to 7 years; provided the loan in a particular year will not exceed 8% of the capital investment.
4. The State Financial Corporations grant loans for acquisition of fixed assets up to ₹ 30 lakhs in the case of limited companies and registered co-operative societies and up to ₹ 15 lakhs for others at liberalised margins and rate of interest, and this is done over a longer span of repayment and moratorium period.
5. The Central/State Government directly or through its subsidiary concern, the State Industrial Development Corporation-underwrites or participates in the preference shares of public limited companies on a selective basis for setting up medium and large industrial units. The State Government also considers cases for setting up of joint ventures with the private sector.
6. The SSI units in the backward areas and other industries with a capital investment in plant and machinery upto ₹ 1 lakh are exempted from the following taxation in some States:
   (i) New units established in the districts are completely exempted from the payment of electricity duty up to a period of 7 years.
   (ii) New units are exempted from property tax for a period of 5 years.
   (iii) Industrial units set up with in the municipal limits are exempted from octroi on capital equipment and, building materials subject to a maximum period of 3 years from the date of regular registration.
7. Provision of essential, controlled raw materials to the SSI units on priority and at very liberal terms.
8. State Governments have set up independent testing laboratories on behalf of the Indian Standards Institution, the Export Inspection Council, the Department of Defence, Government of India and various other government organisations for making industrial products of good quality.
9. In order to provide some important and sophisticated common facilities, a network of industrial development centres, heat treatment centres and common facility workshops have been set up in the States to equip the SSI units with modem techniques and process of manufacturing.

Seed Capital Assistance

One of the constraints faced by the entrepreneurs, especially first generation or technical entrepreneurs is the lack of resources to meet the minimum promoter's contribution. To help the entrepreneurs overcome the problem, IDBI has come up with a scheme which has gained popularity as the Seed Capital Schemes. If the project is coming up in non-backward area, then the project would not be eligible for subsidy. Hence, the entire amount of promoter's contribution would be brought by the contributor himself. This would be reduced to the extent of the subsidy if the project is coming up in backward areas like (category A, B, or C). The maximum amount which can be sanctioned is to the extent of ₹ 5 lacs per project on the fulfilment of certain conditions.

Objectives of-the Schedule

The objective of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to promote wider dispersal of ownership and control of industrial undertakings.

Agencies for Operating the Scheme

The scheme is operated through the agency of notified SFCs and SFCs. Assistance under the scheme will also be given directly by IDBI in exceptional cases. Projects assisted by commercial banks are also eligible for seed capital assistance. However, the entrepreneurs will have to submit their applications through SFC/SIDC functioning in the region.

Eligibility Criteria

To be eligible for assistance the entrepreneurs should be technically or professionally qualified or possess relevant experience or skills either in industry, business or trade. The following categories of entrepreneurs are eligible for assistance under the scheme:

1. New generation entrepreneurs in small scale sector requiring seed capital of more than ₹ 4 lacs.
2. Small scale entrepreneurs who undertake expansion/diversification or modernisation.
3. Entrepreneurs intending to graduate from the small scale to medium sector for the first time.
4. Entrepreneurs intending to set up a project in the medium sector for the first time.
5. Entrepreneurs already in medium sector and intending to undertake diversification for achieving better viability.
6. Entrepreneurs seeking additional seed capital to meet project cost over run caused by factors beyond the control.
7. Entrepreneurs intending to take over an existing sick or closed units and projects constituted as public/private limited companies or partnership/ proprietary concerns eligible for assistance.

Amounts and Mode of Assistance

The amount of seed capital assistance for project shall not exceed ₹ 15 lacs. However, the actual amount will be determined on the basis of gap in the equity required for the project as also shortfall, if, any in the prescribed minimum promoter's contribution after taking into consideration his own contribution and from other sources and subsidies and incentives. For deciding the quantum of assistance, the debt equity norms of 2:1 in the case of SSI units and 1.5:1 in the case of medium scale units would be adopted.

Notes

The assistance will be in the form of soft loans in the case of proprietary and partnership concerns. In the case of private limited companies the assistance will be by the way of soft loans or subscription to 1% cumulative redeemable preference shares. In the case of public limited companies the assistance will be normally by way of subscription to, equity capital or cumulative redeemable preference's shares (at 1%) or both or by way of soft loans.

The soft loan would be interest free which will carry a service charge of 1% per annum. However, IDBI may have option to charge the interest on soft loan at a different rate. There is no commitment charge. The repayment period depends upon repaying capacity of the unit with an initial moratorium period not exceeding 5 years. No security except the personal guarantee of the promoter is stipulated.

3.7 Industrial Licensing: July 1991 Changes

The process of liberalisation got a fillip with the announcement of the new industrial policy in July 1991. The major provisions relating to industrial licensing in this policy can be summarised as follows:

1. Industrial licensing will be abolished for all projects except for a short list of 18 industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption.
2. In projects where imported capital goods are required, automatic clearance will be given in case where foreign exchange available is ensured through foreign equity or where the CIF value of imported capital goods required is less than 25% of total value of plant and equipment, up to maximum value of ₹ 2 crore.
3. The system of phased manufacturing programmes run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programmes will continue to be governed by them
4. Existing units will be provided a new broad banding facility to enable them to produce any article without any additional investment.
5. The exemption from licensing will apply to all substantial expansions of existing units.
6. All existing registration schemes will be abolished.
7. Entrepreneurs will henceforth be required to file an information memorandum on new projects and substantial expansions.
8. The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

Taxation Benefits

The taxation benefits available to small scale industries are explained below:

1. **Tax Holiday:** New small scale industries are exempted from the payment of income tax under Section 80J of the Act on their profits up to 6% (7.5% for companies) from the total income of the units in the assessment year in which the units began manufacturing, provided the small scale units have followed the procedures laid down in Section 80J. This tax holiday is available up to 5 years from the commencement of production.
2. **Depreciation Allowance:** Under Section 32 of the Income Tax Act, a small scale industry is eligible to get a deduction on depreciation account of plant and machinery, land and buildings, at the prescribed rates. In the case of small scale industries the deduction from the actual cost of plant and machinery is allowed up to ₹ 20 lakhs.

   The deprecation is calculated on the reducing balance system. Full depreciation is available for a year irrespective of the actual number of days for which the assets have been used.

Sometime, an additional allowance, called extra shift allowance is available to the units. Any machinery or plant costing less than ₹ 750 is allowed to be written off completely in the year in which it is first used.

3. **Development Rebate:** In respect of new plant and machinery other than office appliances or road transport vehicles of a small scale unit, which is wholly used for the purpose of production, a sum, by way of development rebate, as specified below, is allowed under Section 33, in addition normal depreciation.
   (i) In the case of plant and machinery, 35% of the actual cost if it were installed before 1st April 1970, and 25% of such cost if it were installed after 31st March 1970.
   (ii) Where the plant and machinery was installed after 31st March 1967, being an asset representing expenditure of a capital nature on scientific research related to the business carried on by a unit, development rebate is given at the specified rates.
4. **Rehabilitation Allowance:** This is granted to small scale units, under Section 33B, whose business has been disturbed by:
   (a) Riot or civil disturbance.
   (b) Floods, hurricanes, cyclones, earthquakes or other natural disasters.
   (c) Accidental fire or explosion.
   (d) Action by an enemy.

The small scale unit re-established, reconstructed or revived, is allowed a deduction of a sum, by way of rehabilitation allowance, equivalent to 60% of the amount of the deduction allowance to the unit.

Publication of Books: A small scale industry engaged in the business of publication of books is entitled to claim a deduction of a sum equal to 20 per cent of the profits and gains derived from such business under section 80 of the Act. "Books" for the purpose of this Section do not include newspapers, journals, Magazines, diaries, brochures, pamphlets and other publication of similar nature.

Tax Benefits for Amalgamation of Sick Units: Sickness in an industry, whether large or small, is quite widespread in the country and has become a national problem which has caused a great deal of concern. It is estimated that the aggregate amount involved in the sick units is more than ₹ 2000 crores. The policy of the government has been to encourage the amalgamation of sick units and concessions have been announced to induce healthy units to take over sick concerns in the public interest. Tax concessions are available for the amalgamation of sick units.

Incentive to the small scale/ancillary units acquiring ISO 9000 certificate

Government of India launched a Scheme in March, 1994 to give incentive to small scale/ancillary units acquiring ISO-9000 certification or its equivalent. According to the present norms, the Scheme provides for reimbursement of charges for acquiring ISO-9000 (or its equivalent) certification to the extent of 75% of the cost subject to a maximum of ₹ 75,000/- in each cases.

The present procedural norms of submitting copies of various documents like vouchers/ receipts of payment made to the certification agencies & consultants etc. alongwith the application to claim reimbursement have been reviewed, and simplification in those norms has now been introduced. According to the revised procedural norms, a certificate from the Chartered Accountant certifying the expenditure incurred towards Application fee, Assessment/ Audit fee, Annual feel/ Licence fee, Training, Technical Consultancy etc. (excluding hotel & travel expenses) in acquiring 180-9000 certification shall be submitted in place of the certified copies of various vouchers/ receipts of payments. Further the Application Form has also been simplified. The revised norms shall reduce their documentation work by the small/ancillary units to a great extent & would also accelerate processing of reimbursement applications.

Notes

The revised norms are as under:

1. 75% of the cost of acquiring of ISO-9000 certification or its equivalent subject to a maximum of ₹ 75,000 would be reimbursed in each case.
2. The scheme of reimbursement will remain in operation till end of 9th plan i.e. upto 31st March, 2002.
3. The small scale units seeking reimbursement of cost for acquiring ISO-9000 certification under revised norms, continue to file application (as per revised format) with the Development Commissioner (SSI), Minister of Small Scale Industries & Agro and Rural Industries, Nirman Bhavan, New Delhi-110011 alongwith the, following documents:

I. (i) Permanent Small Scale Ancillary Registration Certification issued by DIC/State Directorate of Industries, Certified copy.

(ii) Proof of SSI status of the unit as on date of application by submitting the following documents – either (a) or (b)

(a) A certificate (in original) from State DI/GM, DIC to the effect that the unit is in SSI sector in terms of investment limits (original purchase value or machinery and equipment) as prescribed by Govt. on the date of submission of application for reimbursement. or

(b) An affidavit (in original) from Managing Director/Director/Proprietor/ Partner of the SSI unit to the effect that the unit still continues to be a SSI/ancillary unit, accompanied by a CA certificate indicating the total investment in Plant & Machinery as on date.

II. ISO-9000 Certification (or its equivalent-attested copy).

III. Chartered Accountant Certificate in support of payments made for acquiring ISO-9000 Certification or equivalent (excluding hotel & travel expenses).

IV. An Undertaking/declaration (in original) giving details of the amount(s) claimed or received by way of grant/reimbursement for acquiring ISO- 9000 (or its equivalent) from a State Govt. or any financial institution. The declaration should also be filed stating that the unit shall disclose the reimbursement made by the Central Government (Office of DCSS) at the time of claiming reimbursement, if any, under any other similar scheme run by the Central/State Government/Financial Institution etc.

The revised Application Format alongwith Formats of undertaking and CA certificates may be had from the General Manager of the District Industries Centre.

Credit Link Capital Subsidy Scheme for Technology Up gradation of SSIs- Guidelines:

1. **Title:** The Scheme is called the "Credit linked Capital subsidy Scheme for Technology Upgradation of the Small Scale Industries" (SSI).
2. **Purpose:** The scheme will provide 12 per cent back ended Capital Subsidy on projects of technology upgradation by SSI units in the specified products/sub- sectors.
3. **Scope of the Scheme**

(i) To begin with, the Scheme would cover the following products/sub- sectors in the SSI:

(a) Leather and Leather Products including Footwear and Garments;

(b) Food Processing ;

(c) Information Technology (Hardware) ;

(d) Drugs and Pharmaceuticals ;

(e) Auto Parts and Components ;

(f) Electronic Industry particularly relating to Design and Measuring ;

(g) Glass and Ceramic items including Tiles ;

(h) Dyes and Intermediates ;

(i) Toys ;

(j) Tyres ;

(k) Hand Tools ;

(l) Bicycle Parts ; and

(m) Foundries-Ferrous and Cast Iron.

The above list of products/sub-sector would be expanded as the Scheme progress with the approval of the Technical Advisory Committee constituted under this Scheme.

4. **Type of Unit to be covered**

(i) Existing SSI unit registered with the State "Directorate of Industries which upgrade with the state-of-the-art technology with or without expansion.

(ii) New SSI units which are registered with the State, Directorate of Industries and which set up their facilities only with the appropriate eligible and proven technology duly approved by the Technical Advisory Committee.

5. **Definition of Technology Upgradation**

(i) Technology upgradation would ordinarily mean induction of state-of- the-art or near state-of-the-art technology. In the case of more than 7500 products being produced in the Indian small scale sector, technology upgradation would mean a significant step from the present technology level to a substantially higher one involving improved productivity, or/and improvement in the quality of products or/and improved environmental conditions. It would include installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery.

(ii) Replacement of existing equipment/technology with the same equipment technology will not qualify for this Scheme, nor would the Scheme be applicable to units upgrading with second hand machinery.

6. **Duration of the Scheme:** The Scheme will be in operation for a period of five years from 1.10.2000 to 30.9.2005, or till the time sanctions of capital subsidy by the Nodal Agency reaches ₹ 600 crores, whichever is earlier.

7. **Nodal Agency:** Small Industries Development Bank of India (SIDBI) will act as the Nodal Agency.

8. **Cap on Amount of Subsidy**

(i) The financial assistance by the Banks/SIDBI for technology upgradation will be need based. However, the subsidy support would be limited to the loan amount indicated in Table 3.1.

(ii) Value of Plant & Machinery being acquired under the Scheme will be determined by its purchase price.

(iii) Capital Subsidy under this Scheme will not be admissible for loan amount exceeding the limits indicated above.

9. **Working capital requirement:** Since the success of the technology upgradation programme, to a large extent, depends upon the availability of adequate working capital, commercial banks should provide adequate working capital.

Notes

10. **Other Conditions for Loans**

(i) Promoters' contribution, security, debt-equity ratio, up-front fee, etc., will be determined by the lending agency as per its existing norms.

(ii) Entrepreneurs availing Credit Linked Capital Subsidy for technology upgradation shall not avail any other benefit including Interest Subsidy, under any other Scheme of the Central Government.

Table 3.1

S. No.	Existing Investment Limit	Maximum Celing of Loan eligible for support
1.	Tiny units with investment in plant and machinery less than ₹ 10 lakhs	₹ 8 lakhs
2.	Tiny units with investment in plant & machinery between ₹ 10 liikhs to ₹ 25 lakhs	₹ 20 lakhs
3.	SSI units with investment in plant & machinery above ₹ 25 lakhs	₹ 40 lakhs

(iii) One of the main requirements of sanction of assistance under the Technology Upgradation Scheme will be availability of competent management to the unit concerned to carry out the upgradation programme and to manage the operation of the unit efficiently. Towards this end, the lending agencies may stipulate conditions as may be considered necessary.

11. **Procedure for Sanctions and Disbursements of Loans:** The SSI unit will have to apply to financial assistance in the prescribed form to any scheduled Commercial Bank or SIDBI or one of the declared eligible State Financial Corporations (SFCs). The list of eligible SFCs would be finalised in consultation with the Banking Division, Ministry of Finance. The bank/SFC after appraisal would refer the cases to the SIDBI, which would convey clearance for capital subsidy. The lending institutions would be required to lodge claims of capital subsidy from SIDBI on a quarterly basis. SIDBI will settle the claim expeditiously.

12. **Procedure for Sanction and Release of Subsidy**

(i) In order to get the Scheme operationalised, an interest free advance of Rs. 30 crores will be given to SIDBI by the Ministry of SSI&ARI, Govt. of India. The entire subsidy amount of ₹ 600 crores would be released in suitable instalments to SIDBI and for which necessary provison would be made in the Annual Plan Budget of the Office of The Development Commissioner (SSI).

(ii) SIDBI would prescribe the modalities for submission of subsidy claims by Commercial banks/State Financial Corporations.

(iii) The detailed methodology of the release and adjustments of subsidy shall be worked out in consultation with the SIDIU.

(iv) The SIDBI shall maintain and monitor fund utilisation under the Scheme.

13. **Preferential Sanction/Disbursement for the Tiny Sector:** SIDBI/all Scheduled Commercial Banks/eligible State Financial Corporations would ensure preference to the tiny sector for loans for technology upgradation.

14. **Monitoring of the Scheme-Constitution of a Governing Board:** The Scheme will be monitored by a Governing Board. The Secretary (SSI&ARI) will be the Chairperson of the Board and the Development Commissioner (SSI) will be its Member Secretary. The Governing Board shall consist of representatives of Banking Division (Ministry of Finance), Planning

Commissioner, Department of Science and Technology, Council of Scientific & Industrial Research. Indian Council for Agricultural Research, SIDBI, some selected public sector banks and some selected small scale industries associations as members. The governing Board will monitor and review the functioning of the Scheme and will meet at least twice a year.

Notes

15. Review of approved technologies Constitution of a Technical Advisory Committee

(i) Identification of technology is a continuous process. Moreover, new technologies may also come during the operation of the Scheme.

(ii) The Technical Advisory Committee would be set up under the Chairmanship of Secretary (SSI&ARI) to identify the state-of the-art technology and benchmark existing and new technologies which will be eligible for support under the Scheme. It will consist of representatives of concerned Ministries including Planning Commission, Technical Research Institutes/Organisations such as Council of Scientific & Industrial Research, Department of Science and Technology, National Research Development Corporation, Indian Council for Agricultural Research and Industry Associations. The Development Commissioner (Small Scale Industries) will be the Member-Secretary of the Technical Advisory committee. The Committee would periodically meet and identify the new technologies for approval under this Scheme.

16. Estimated Requirement of Funds

(i) As credit linked capital subsidy is to be provided for loans of ₹ 5000 crores during the five years of its operation, total liability of Government would be ₹ 600 crores (12% of ₹ 5000 crores) under this scheme.

(ii) For the purpose of estimating the yearly financial requirements it has been assumed that in a year about 15,000 units would be assisted under the Scheme.

(iii) Based on this, the estimated Year-wise funding requirements during the operation of the Scheme is as follows:

Year	Loan Amount to be covered for subsidy (₹ in cores)	Credit Linked Capital Subsidy (₹ in crore)
2000-2001	500	60
2001-2002	1000	120
2002-2003	1000	120
2003-2004	1000	120
2004-2005	1000	120
2005-2006	500	50
Total	5000	600

3.8 Institutional Support to Entrepreneurs

Governments-both Central and State, have in the past taken a number of measures for the development of small and medium enterprises. Government has set up a number of development institutions to support entrepreneurs. Some of the institutions assisting entrepreneurs include District Industries Centres (DICs) and Industrial Estate, Small Industries Development Organisation (SIDO), Small Industries Service Institutes (SISI), Small Industry Development Corporation (SIDCO), Entrepreneurial Guidance Bureau (EGB), National Alliance of Young Entrepreneurs (NAYE), National Productivity Council (NPC) and Venture capital funds (VCF). In addition, all India financial institutions-IDBI, IFCI, ICICI-have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. Recently, the

Small Industries Development Bank of India (SIDBI) has been established to help small scale units. Besides, agencies like Khadi and Village Industries Commission, Commercial Banks, Cooperative Banks, EXIM Bank and National Science and Technology Entrepreneurship Board undertake promotional activities aiming at support in entrepreneurship development. Now, what follows in the subsequent pages is the various kinds of support provided by aforesaid institutions to the entrepreneurs to help them establish industries.

Notes

3.9 Small Scale Industries Board (SSIB)

The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on the development of small scale industries in the country. The SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries involves several departments/ministries and several organs of the Central/State Governments. Hence, to facilitate co-ordination and inter-institutional linkages, the Small Scale Industries Board has been constituted. If is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small-scale industries.

The Industries Minister of the Government of India is the Chairman of the SSIB. The SSIB comprises of 50 members including State Industry Minister, some Members of Parliament, Secretaries of various Departments of Government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

State Small Industries Corporations

Many State Governments have set up Small Industries Corporations in order to undertake a number of commercial activities. The most important of these activities are distribution of scarce raw materials, supply of machinery on hire- purchase basis, constitution and management of industrial estates, procurement of orders from Government Departments, assistance in export marketing and in certain cases provision of financial, technical and managerial assistance to small enterprises.

3.10 Small Industries Development Corporation (SIDCO)

In Tamilnadu SIDCO is the state small industries corporation. It plays a lead role in developing small scale sector. It provides the following facilities to small scale units:

1. It makes provision of constructed sheds/plots in industrial estates. These are sold to entrepreneurs on hire-purchase basis or given on rental basis.
2. Assistance in procuring some scarce key raw materials like iron and steel, paraffin wax, potassium chlorate, Fatty Acids, etc., through its various distribution centres.
3. Financial assistance in the form of subsidies to industrial units in backward areas like Central Investment subsidy, state capital subsidy. Interest-Free sales tax loans, power tariff subsidy and margin money assistance for the rehabilitation of the sick small scale industries.
4. Marketing assistance to small entrepreneurs.

Small Industries Service Institutes (SISIs)

The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training division of the DCSSI's office. There are 28 SISIs and 30 branch SISIs set up in State capital and other places all over the country.

The main functions of SISIs include:

- To serve as interface between Central and State Governments.
- To render technical support services.

Notes

- To conduct Entrepreneurship Development Programmes.
- To initiate promotional programmes.

The SISIs also render assistance in the following areas:

(i) Economic Consultancy/Information/EDP Consultancy.

(ii) Trade and market informations.

(iii) Project profiles.

(iv) State industrial potential survey.

(v) District industrial potential surveyes. (vi) Modernisation and inplant studies. (vii) Workshop facilities.

(viii) Training in various trade/activities.

District Industries Centres (DICs)

The District Industries Centres (DICs) were established in May 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scare industries in rural areas. The DICs are envisaged as a single window interacting agency with the entrepreneur at the district level.

Services and support to small entrepreneurs are provided under a single roof through the DICs. They are the implementing arm, of the Central and State Governments for various schemes and programmes. Registration of small industries is done at the district industries centres.

The organisational structure of DICs consists of General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to the needs of district concerned. Management of the DIC's is done by the State Governments. The scheme has now been transferred to the states and from the year 1993-94, funds will not be provided by the Central Government to the States for running the DICs.

Functions: The DICs role is mainly promotional and developmental. To attain this, they have to perform the following main functions:

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs.
- To prepare an action plan to effectively implement the schemes identified.
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.
- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
- To undertake product development work appropriate to small industries.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administering IRD and TRYSEM programmes.

3.11 Industrialestates

Developing countries require institutional arrangements for their rapid industrialisation and balanced growth. One such institutional measure is industrial estates. The term 'industrial estate' is called by different names, e.g., industrial park, industrial zone, industrial region, industrial city, industrial area, industrial township, etc.

Notes

An industrial estate has been defined as a method of "organising, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

3.12 Types of Industrial Estates

Industrial estates are classified on various bases. The prominent ones are:

1. **Classification on the basis of Functions:** On the basis of functions industrial estates are broadly classified into two types:

   (i) General type industrial estates, and (ii) Special type industrial estates.

   General Type Industrial Estates: These are also called as conventional or composite industrial estates. These provide accommodation to a wide variety and range of industrial concerns. The Indian industrial estates are mainly of this type.

   Special Type Industrial Estates: This type of industrial estates are constructed for specific industrial units, which are vertically or horizontally interdependent.

2. **Classification on the basis of Organisational Set-up:** On this basis, industrial estates are classified into following four types:

   (i) Government Industrial Estates,

   (ii) Private Industrial Estates,

   (iii) Co-operative Industrial Estates, and

   (iv) Municipal Industrial Estates.

3. **Other Classifications:**

   (i) **Ancillary Industrial Estates:** In such industrial estates, only those small-scale units are housed which are ancillary to a particular large industry. Examples of such units are like one attached to the HMT, Bangalore.

   (ii) **Functional Industrial Estates:** Industrial units manufacturing the same product are usually housed in these industrial estates. These industrial estates also serve as a base for expansion of small units into larger units.

   (iii) **The Workshop-bay:** Such types of industrial estates are constructed mainly for very small firms engaged in repair work.

Objectives of Industrial Estates

The main objectives of the establishment of industrial estates are:

1. To provide infrastructure and accommodation facilities to the entrepreneurs;
2. To encourage the development of small-scale industries in the country;
3. To decentralise industries to the rural and backward areas;
4. To encourage ancillarisation in surrounding major industrial units; and
5. To develop entrepreneurship by creating a congenial climate to run the industries in these estates.

Notes

3.13 Industrial Estates in India

One of the handicaps faced by small scale industries in India has been the lack of well-developed space with the necessary infrastructure for carrying on their manufacturing operations. In order to overcome this problem, the Government of India launched the programme of setting up industrial estates in 1955. The responsibility for planning, developing, constructing and managing industrial estates lies with the respective State Governments. They are free to run the estates through corporations or any other agencies of their choice. The Central Government provides financial assistance to the State Governments for the development of industrial estates. Such financial assistance is provided in the form of loans, grants and subsidies.

Industrial estates as a tool of rapid and balanced economic development, occupy a prominent place in the scheme of planned growth in India. These estates are expected to foster the growth of small scale industries, help in rural industrialisation, and decentralisation of industrial location. Therefore, increasingly more funds have been allocated under successive five year plans for the development of industrial estates. Such allocation of funds increased from ₹ 58 lakhs under the First Five Year Plan to more than ₹ 90 crores in the Eighth Five Year Plan.

The programme of industrial estates in India is designed to achieve the following objectives:

1. to encourage the development of small-scale and medium sized industrial units for balanced regional development;
2. to remove concentration or congestion of industries in big cities by facilitating the movement of industrial units to suburban and rural areas;
3. to secure decentralisation of industry by diverting new industrial units to underdeveloped regions;
4. to encourage the growth of ancillary units in the townships surrounding major industrial undertakings, both in public and private sectors. No developing country has launched such a massive programme of industrial estates as India. Over the years there has been a remarkable growth in industrial estates. However, a sizeable portion of capacity in industrial estates remains unutilised.

Experience reveals that urban industrial estates have been more successful than semi-urban and rural estates. Rural estates have not been much successful due to lack of sound infrastructural facilities. Therefore, efforts should be made to develop sound infrastructure in rural and suburban industrial estates.

Small industry certainly needs a boost through industrial estates. But industrial estates should not simply become a housing colony for small units, irrespective of their merits. Encouraging the small units that do hot fit into the nation's needs and the national priorities is pointless. Identification of the product, manufacturing of which results in the promotion of labour - intensive industry and choosing the techniques that help promote the labour - and intensive manufacturing should be the objectives of the industrial estates.

3.14 National Small Industries Corporation Ltd. (NSIC)

The National Small Industries Corporation Ltd. (NSIC), an enterprise under the Union Ministry of Industries, was set up in 1955 to promote, and foster the growth of small scale industries in the country. NSIC provides a wide range of services, predominantly promotional in character to small scale industries. Its main functions are:

- To provide machinery on hire-purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.

- To develop proto-type of machines and equipments to pass on to small scale industries for commercial production.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in the development and upgradation of technology and implementation of modernisation programmes of small scale industries.
- To impart training in various industrial trades.
- To undertake the construction of industrial estates.

Notes

Small Industries Development Organisation (SIDO)

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of smallscale industries, development of industrial estates, etc. The main functions of SIDO are classified into (i) co-ordination, (ii) industrial development and (iii) extension. These functions are performed through a national network of institutions and associated agencies. All small-scale industries except those falling within the specialised boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

Following are the main tasks performed by the SIDO in each of its three categories of functions.

Functions Relating to Co-ordination

- To evolve a national policy for the development of small scale industries,
- To co-ordinate the policies and programmes of various State Governments,
- To maintain a proper liasion with the related Central Ministries, Planning commission, State Governments, Financial Institutions, etc., and

To co-ordinate the programmes for the development of industrial estates.

Functions Relating to Industrial Development

- To reserve items for production by small-scale industries,
- To collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance,
- To render required support for the development of ancillary units, and
- To encourage small scale industries to actively participate in Government Stores Purchase Programme by giving them necessary guidance, market advice and assistance.

Functions Relating to Extension

- To make provision of technical services for improving technical process, production planning, selecting appropriate machinery, preparing factory layout and design.
- To provide consultancy and training services to strengthen the competitive ability of small-scale industries.
- To render marketing assistance to small-scale industries to effectively sell their products, and

- To provide assistance in economic investigation and information to smallscale industries.

3.15 Entrepreneurial Guidance Bureau (EGB)

Notes

The EGB has, been set up to guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations or the projects, preparing project profiles, assisting them to get financial assistance.

EGB has been supplying information pertaining to the products that offer scope for manufacture, statistical details relating to demand, capacity production, sources of raw materials, types of equipments required, investment involved, sources of finance, etc. Information of procedures pertaining to obtaining letters of intent, import of capital equipment, export of finished products is also furnished. EGB also renders assistance from banks/financial institutions or for submitting proposals for the letter of intent, etc. EGB also establishes direct contact with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship development.

3.16 National Alliance of Young Entrepreneurs (NAYE)

National Alliance of Young Entrepreneurs (NAYE) sponsored an Entrepreneurial Development Scheme with Bank of India in August 1972 on pilot basis. This scheme, known as BINEDS, is operative in the States of Punjab, Rajasthan, Himachal Pradesh, Jammu and Kashmir and Union Territories of Chandigarh and Delhi. NA YE entered into similar arrangements with a few other banks as are discussed below.

1. **Dena Bank - NAYE:** For Promoting ancillary units and small scale enterprises in Madras..
2. **Punjab National Bank- NAYE:** Entrepreneurship Assistance Programme launched in the States of West Bengal and Bihar in March 1973.
3. **Central Bank of India - NAYE:** Entrepreneurship Development
4. Programme being implemented in Maharashtra.
5. **Union Bank of India - NA YE:** Entrepreneurship Development Programme inaugurated in June 1975 in Tamilnadu with an intention to adopt 200 entrepreneurs.

The main objective of the scheme is to help young entrepreneurs in identifying investment and self-employment opportunities; securing proper arrangements for their training including development of their manufacturing capabilities; providing necessary financial assistance on the basis of properly prepared reports; securing package of consultancy services on appropriate terms and arranging for all possible assistance, facilities and incentives being extended to young entrepreneurs by Government and other institutions.

3.17 Small Industry Extension Training Institute (SIETI)

SIET entered the field of consultancy on abhoc basis mainly to support the activities of State Governments and development corporations. SIETI's consultancy services have recently become broad-based in terms of both the types of assignments undertaken and area covered. The activities have been operative in Jammu and Kashmir, Karnataka, Nagaland, Meghalaya, Manipur, Assam, Maharashtra and Andhra Pradesh. The assignments in the earlier-years pertained to (1) identification of industrial opportunities, (2) identification of growth centres, (3) preparation of regional development plans, (4) industrial profiles, (5) feasibility studies, (6) organisational development, and (7) designing information system. They now include entrepreneurial development; training and counselling of the educated unemployed; management counselling for sick industrial units; and training of trainers and consultants for entrepreneurial development. Particular attention is given to industrialisation of backward areas.

3.18 National Productivity Council (NPC)

Notes

Recently National Productivity Council has started a Package Consultancy Service to Small Industries. This service is in three stages.

1. Training young and prospective entrepreneurs;
2. Undertake market surveys in the States. These surveys are conducted for identifying investment opportunities and consumption patterns for the prospective entrepreneurs; develop data bank for providing information in respect of investment opportunities and financial resources required, facilities available for obtaining loans; selection/ modernisation of processes and equipment, product development, availability of raw materials and market opportunities, sales promotion and marketing and to undertake techno-economic feasibility studies either on behalf of prospective or existing entrepreneurs or on behalf of financial institutions.
3. Post-investment service consultancy and follow-up in the following form.

To assist the entrepreneurs in repayment of loans in the minimum possible time by helping them in improving their enterprise level productivity through periodical visits; assist the small scale industries in training of workers in specific trades and supervisory and managerial personnel in techno-managerial subjects, assist the existing enterprises in improving their enterprise level productivity through training and consultancy services; and assisting them in market studies and sales promotion.

National Research Development Corporation of India (NRDCI)

NRDCI makes available processes which have been developed by various laboratories in the country: It brings out periodically a publication, entitled,

'PRDC Processes', which gives in brief particulars of the various processes, uses of the products, raw materials required and capital outlays.. If an entrepreneur is interested to adopt a process, he is expected to pay a lumpsum premium; royalty is also payable bi-anually for specified period after starting production. The concerned institute or laboratory releases the process details to the licerise after he has executed an agreement. NRDC also provides technical appraisals on a few projects, which are variously priced at ₹ 25 to ₹ 750 per copy.

3.19 Khadi and Village Industries Commission (KVIC)

KVIC was set up in 1953. The primary objective of establishing KVIC is to develop Khadi and Village industries and improving rural employment opportunities. Its wide range of activities include training of artisans, extension of assistance for procurement of raw materials, marketing of finished products and arrangement for manufacturing and/ distribution of improved tools, equipment and machinery to producers on concessional terms.

KVIC provides assistance to Khadi and Village industries which are characterised by low capital intensity and ideally suited to manufacturing utility goods by using locally available resources. There are about 26 specified-village industries such as processing of cereals and pulses, leather, cottage matches, gur and khandsari, palm gur, non-edible oils and soaps, village pottery, carpentry, gobargas, household aluminium utensils, etc.

KVIC's policies and programmes are executed through 30 State Khadi and Village Industries Boards, 2320 institutions registerd under the Societies Registration Act, 1960 and about 30,600 Industrial Cooperative Societies registered under State Cooperative Societies Act. Activities involving pioneering types of work, such as developing new industries in hilly, backward and inaccessible areas are undertaken by KVIC directly.

Notes

National Institute of Entrepreneurship and Small Business Development (NISEBUD), New Delhi It is an apex national level institute of its kind set up at New Delhi in 1983. Its main functions are to coordinate research and training in entrepreneurship development and to impart specialised training to various categories of entrepreneurs. Besides, it also serves as a forum for interaction and exchange of views between various agencies engaged in activities relating to entrepreneurial development National Institute of Small Industries Extension Training (NISIET), Hyderabad

This institute was set up in 1956 to develop the required manpower for running small-scale industries in the country. Accordingly, its main functions are:

(a) To impart training to the persons engaged in small-scale industries.

(b) To undertake research studies relating to development of small-scale industries.

(c) To enter into agreements relating to consultancy services both with national and international organisations to provide consultancy services to small industries in the country.

The institute conducts courses in business management for the benefit of the entrepreneurs and semi-managerial personnel of small industries. It is located at Hyderabad.

Other Institutes Supporting Entrepreneurs

Following are some of the important institutes set up by the Government for development of small-scale industries:

(a) Electronic Training and Service Institute, Nainital.

(b) Central Machine Tools Limited, Bangalore.

(c) Sports Goods and Leisure Time Equipment, Meerut.

(d) Central Institute of Plastics Engineering and Tools, Madras.

(e) National Institute of Foundry and Forging Technology, Ranchi.

Technical Consultancy Organisations (TCOs)

A network of Technical Consultancy Organisations (TCOs) was established by the all India financial institutions in the seventies and the eighties in collaboration with state level financial/development institutions and commercial banks to cater to the consultancy needs of small industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state. These 17 TCOs are:

1. Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).
2. Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO).
3. Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO).
4. Haryana-Delhi Industrial Consultants Ltd. (HARDICON).
5. Himachal Consultancy Organisation Ltd. (HIMCO).
6. Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT).
7. Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KITCO).
8. Karnataka Industrial and Technical Consultancy Organisation Ltd. (KITCO).
9. Madhya Pradesh Consultancy Organisation Ltd. (MPCON).
10. Mahrashra Industrial and Technical Consultancy Organisation. Ltd. (MITCON).
11. North-Eastern Industrial Consultants Ltd. (NECON).
12. North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO).
13. North-India Technical Consultancy Organisation Ltd. (NITCON).
14. Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCON).
15. Rajasthan Consultancy Organisation Ltd. (RAJCON).

16. U.P. Industrial Consultants Ltd. (UPICO).
17. West Bengal Consultancy Organisation Ltd. (WEBCON).

Functions

Notes

Initially, TCOs' functions were focused on pre-investment studies for small and medium scale enterprises. Over the years, they have diversified their functions to include the following:

- To prepare project profiles and feasibility profiles.
- To undertake industrial potential surveys.
- To identify potential entrepreneurs and provide them with technical and management assistance.
- To undertake market research and surveys for specific products.
- To supervise the project and where necessary, render technical and administrative assistance.
- To undertake export consultancy for export-oriented projects based on modern technology.
- To conduct entrepreneurship development programmes.
- To offer merchant banking services.
- A summary view of the progress/performance of TCOs

Commercial banks and Entrepreneurial Development

In recent times commercial banks have not confined themselves to mere extension of finance to small entrepreneurs but have shown genuine concern for their progress and development. They have now entered the challenging field of promoting new small scale entrepreneurs through entrepreneurship development programmes. In their new role as promoters of small scale sector they have accepted yet another challenging task. They are now holding EDPs in collaboration with specialized institutions such as DIC, SISI, TCOs, etc. with a view to identifying entrepreneurs, especially in backward areas, and training and monitoring them to start new ventures.

3.20 Summary

The term "incentive" includes concessions and bounties. 'Subsidy' denotes a single lump sum which is given by a government to industry. It is granted to an industry which is considered essential in the national interest. The term 'bounty' denotes bonus or financial benefit which is given by a government to an industry to help it compete with other units in a nation or in a foreign market.

Fianance Bill proposes to provide incentive for dispersal of industrialisation in remote and industrially backward regions. It is proposed to allow, in respect of any new industrial undertaking, located in a State or Union Territory specified in the new Eighth Schedule of the Income-tax Act, which starts manufacturing or production after 1.4.1993, deduction under section 80-IA at the rate of 100 per cent of profits in respect of the first five assessment years starting from the assessment year relevant to the previous year in which the industrial undertaking begins manufacture or production. For the subsequent assessment years, deduction from the profits of such undertakings will be allowed at the normal rate of 30 per cent in the case of companies and 25 per cent in the case of Non-corporate assesses.

Industrial estate has been defined as a method of "organising, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

3.21 Glossary

Notes

- *Duration of the Scheme:* The Scheme will be in operation for a period of five years from 1.10.2000 to 30.9.2005, or till the time sanctions of capital subsidy by the Nodal Agency reaches ₹ 600 crores, whichever is earlier.
- *Depreciation Allowance:* Under Section 32 of the Income Tax Act, a small scale industry is eligible to get a deduction on depreciation account of plant and machinery, land and buildings, at the prescribed rates.
- *The Workshop-bay:* Such types of industrial estates are constructed mainly for very small firms engaged in repair work.
- *Union Bank of India - NA YE:* Entrepreneurship Development Programme inaugurated in June 1975 in Tamilnadu with an intention to adopt 200 entrepreneurs.
- *Punjab National Bank- NAYE:* Entrepreneurship Assistance Programme launched in the States of West Bengal and Bihar in March 1973.

3.22 Review Questions

1. What are the salient features of New Small Enterprise Policy, 1991 ?
2. What do you mean by incentives and subsidies? Briefly present an account of the schemes of incentives in operation in India.
3. Explain the different incentives available to SSI units in backward areas.
4. What do you mean by seed capital assistance? Who are eligible to avail it?
5. Write a note on Subsidised Consultancy Services.
6. What is meant by transport subsidy? List the main features of this scheme.
7. State the changes made in July 1991 in Industrial Licensing.
8. What taxation benefits are enjoyed by SSIs in our country ?
9. Discuss the scheme of Incentives to the small scale/ancillary units acquiring ISO 9000 certificate.
10. Write a detailed note on "Credit Linked Capital Subsidy Scheme for Technology Upgradation of SSIs".
11. Describe the institutional set up for entrepreneurial development in India.
12. Discuss the need for institutional support to small-scale industries.
13. Discuss the support provided by the National Small Industries Corporation Ltd. (NSIC) to small-scale industries in the country.
14. What are the functions performed by the Small Industries Development Corporation (SIDCO) to boost the growth of small-scale industries in the country?
15. Describe the role that State Small Industries Development Corporations (SSIDC) play in developing small enterprises in the country.
16. What are District Industries Centres (DICs)? Explain the functions of the DICs.

3.23 Further Readings

- *Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing.
- Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi. N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons. P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.
- Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.
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UNIT-4

WOMEN ENTREPRENEURSHIP

Notes

(Structure)

4.1 Learning Objectives

After studying the chapter, students will be able to:

- Discuss the scope of entrepreneurship among women;
- Discuss the working environment for women entrepreneurs;
- Explain the concept of women empowerment through entrepreneurship;
- Discuss the challenges in the path of women entrepreneurs;
- Describe the Self-Help Groups;
- Explain the concept of grassroots entrepreneurs through Self-Help Groups;
- Understand various definitions, and types of family businesses;

- Discuss the succession in family business and the key issues in sibling rivalry in family business;
- Identify the causes for pitfalls in family business;
- Identify the requirements needed to improve the capability of a family business.

Notes

4.2 Introduction

In the previous unit, we dealt with the legal issues for an intrepreneur and also discussed about the Intellectual Property Rights in India. This unit will help you to understand the concept of women entrepreneurship. The various sections and sub-sections of this unit will also summarize the challenges in the path of women entrepreneurs.

It is estimated that presently women entrepreneurs comprise about 10% of the total entrepreneurs in India. It is also clear that this percentage is growing every year. If prevailing trends continue, it is not unlikely that in another five years, women will comprise 20% of the entrepreneurial force in India. It is perhaps for these reasons that government bodies, NGO's, Social Scientists, Researchers and International agencies have started showing interest in the issues related to entrepreneurship among women in India.

Indian Women have come a long way with changing time. Interestingly issues related to women in India, like female foeticide, bride burning (for reasons of dowry) and 'sati' (widow burning) are a passé in Modern India. Each of these acts is a criminal act and an extremely rare occurrence is now being reported.

India has more working women than any other country in the world. This includes female workers at all levels of skill – from the surgeon and the airline pilot to bus conductors and menial labourers.

Ironically, even with such advancements made by women of modern India, on an average women in India are socially, politically and economically weaker than men. But moves are underway to empower women. The most news-making development was the introduction of the Women's Bill in Parliament in late 1998: the Bill seeks to reserve a certain percentage of seats in Parliament for women. The passing of this bill has lead the women to be a part of law making body and hence has given them a chance to protect their interest. Moreover, there is a National Human Rights Commission for Women that handle all human rights violations against women, there is National Council for Women that advocates policy for women, there is an entire ministry for women that formulates and implements policy for them. Hence the efforts are on to raise the status of women in modern India.

The call of the present time is that women should be financially independent. But the problem with financial independence of women is that the availability of jobs (in general for both women and men) is very less and hence some new methods have to be sought out by women to gain financial independence.

Entrepreneurship among women can be eyed as a tool for Employment and Income Generation. The concern to develop more women entrepreneurs emerges from the fact that women represent 50% of the world population, but receive only 10% of the world income and less than 1% of the world's assets. Efforts have been made by various governmental and non-governmental agencies all over the world to promote women entrepreneurs. The results are somewhat encouraging. There is growth in the number of women opting for entrepreneurship as their career option. There is also a perceptible shift in the nature of businesses being set up by women in India. The myth that women are fit only for papad and pickle making is shattered completely. Women entrepreneurs are making a mark in the garment and service industries, as also in the computer, chemicals and construction material industries. The development of women entrepreneurs is in line with the overall entrepreneurship development in the country. 'The Women Entrepreneurship' in Modern India is there to stay.

Notes

In the previous unit, we dealt with the working environment and empowerment of women entrepreneurs and also discussed about the problems faced by them. This unit will help you to conceptualize grassroots entrepreneurs. The various sections and sub-sections of this unit will also summarize how grassroots entrepreneurs work through Self-Help Groups (SHGs). Women play a very important role in the economic development of India. They are involved in business activities at all levels, making important contributions to economic growth.

Nowadays, Indian women are increasingly active in part of economy that were previously considered male domain. But the development of women entrepreneurship is very low in India, especially in the rural areas. Entrepreneurship amongst women has been a recent concern. Women have become aware of their existence, their rights and their work situation. Nowadays Self-Help Groups (SHGs) are playing very important role for women motivated in entrepreneurship through micro-finance. SHGs are not only increasing in rural women entrepreneurship but also in urban women entrepreneurship.

India has adopted the Bangladesh's model in a modified form. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. With availability of micro-finance, Self-Help Groups (SHGs) and credit management groups have also started in India. And thus the movement of SHG has spread out in India. The members of SHGs now become entrepreneurs. Innovative thinking and farsightedness, quick and effective decision making skill, ability to mobilize and marshal resource, strong determination and self-confidence, preparedness to take risks, accepting changes in right time, access and alertness to latest scientific and technological information these are basic qualities in women therefore they are actively running their own business with help of SHGs. They are actively running business like, food processing and preservation, catering services and fast food centers, interior decoration, DTP and Book binding, dairy, poultry, household appliances, stationeries, packing and packaging, diagnostic lab and pathology clinics, communication centers with telecom, fax, browsing and Xeroxing facilities, readymade garments, embroidering and fashion designing, retail selling, art and painting works, hiring of warehouses and godowns, floral decorations, jewellery, beauty parlors. Though women entrepreneurship is a recent phenomenon in India which came into prominence in late 1970's now we see that more and more women are venturing as entrepreneurs in all kinds of business and economic activities and service sector. Though at the initial stage women entrepreneurship developed only at urban areas, lately it has extended its wings to rural areas.

"Family Business has to be efficiently managed in a liberalised environment and efficient managers are more likely to be outside the family rather than within. You have no choice but to bring them in to run the family businesses." - *Rahul Bajaj, Bajaj Autos.*

When you put up your own money and operate your own business, you prize your independence. It's MY business, you can tell yourself, in good times and in bad. In a family company, however, it's OUR business. When family members work together, emotions may interfere with business decisions. Conflicts may arise as relatives see the business from different perspectives. Those who are silent partners, stockholders and directors are likely to judge capital expenditures, growth and other critical matters primarily by dollar signs. Those engaged in daily operations are more likely to be concerned about production and sales figures and personnel matters. Obviously, there is potential for conflict.

In some family companies, daily operations are hampered by conflict; in others, the challenge is a high turnover rate among nonfamily employees. Growth also may be a dilemma if some relatives are reluctant to plow profits back into the business. Conflict in the business also can be aggravated by family members who have little talent for money or business — the offspring of company founders who lack business acumen or in-laws who must be employed without regard to their ability or the company's needs.

The manager of a family-owned business faces the same challenges as the owner-manager of any small company. However, the job of family manager may be complicated by relatives who must be reconciled to working together in a business. Family business management stands for "A family business is a company owned, controlled, and operated by members of one or several families. Many companies that are now publicly held were founded as family businesses. Many family businesses have non-family members as employees, but, particularly in smaller companies, the top positions may be allocated to family members"

Notes

4.3 Scope of Entrepreneurship among Women

Although many women have advanced in economic structures, for the majority of women, particularly those who face additional barriers, continuing obstacles have hindered their ability to achieve economic autonomy and to ensure sustainable livelihoods for themselves and their dependants. Women are active in a variety of economic areas, which they often combine, ranging from wage labour, subsistence farming and fishing to the informal sector. However, legal and customary barriers to ownership of access to land, natural resources, capital, credit, technology and other means of production, as well as wage-differentials, contribute to impeding the economic progress of women. Women contribute to development not only through remunerated work but also through a great deal of unremunerated work.

On the one hand, women participate in the production of goods and services for the market and household consumption, in agriculture, food production or family enterprises. On the other hand, women also perform the great majority of unremunerated domestic work and community work, such as caring for children and older persons, preparing food for the family, protecting the environment and providing voluntary assistance to vulnerable and disadvantaged individuals and groups. This work is often not measured in quantitative terms and is not valued in national accounts.

Women's contribution to development is seriously underestimated, and thus its social recognition is limited. The full visibility of the type, extent and distribution of this unremunerated work will also contribute to a better sharing of responsibilities between women and men. Lack of employment in the private sector and reductions in public services and public service jobs have affected women disproportionately. In some countries, women take on more unpaid work, such as the care of children and those who are ill or elderly, compensating for lost household income, particularly when public services are not available.

In many cases, employment creation strategies have not paid sufficient attention to occupations and sectors where women predominate; nor have they adequately promoted the access of women to those occupations and sectors that are traditionally male. Considering all the reasons mentioned above entrepreneurship among women is an area which can help in Employment Generation and Income Generation among Women.

4.4 Working Environment

Women entrepreneurs operate through different environment as compared to the traditional business environment. The overall essence of women entrepreneurship can be visualized as operating to be in three different environments or spheres such as:

Micro Sphere

In many countries women experience an unequal power relationship with men which are often reflected in persistent inter-family inequalities in the distribution of tasks. Male possessiveness and dominance also weakens women's extra household bargaining power. This amounts to deprivation of influence at all the levels of operations. Gender relations also determine the ascription to men and women of different abilities, attitudes, desires and so on. These factors are seen to be important in women entrepreneurship development.

Notes

Organizations tend to militate against women and their economic empowerment as most are based on patrilineal and paralegal relationships where women rarely have access to property succession rights from fathers or husbands; where a woman is obliged to live close to the husband's family, even after the husband's demise. In the household, women are expected to carry out the domestic work, childcare and other tasks and their economic opportunities are restricted.

The requirement that women have to stay close by to domestic activities inevitably limits their potential to operate in business, which involves traveling, even over short distances, to procure supplies and meet customers. This is another strong reason for disempowerment of women entrepreneurship.

Meso Sphere

There are a large number of organizations, both government and non-government, involved in providing support services to entrepreneurs. However, for a variety of reasons, many of these organizations tend to act as barriers when it comes to providing assistance to women entrepreneurs. In some cases this can be attributed to a lack of awareness about women's concerns and insensitivity towards gender issues.

It is at the Meso level that it is found that the lack of support for women entrepreneurs by any of these organizations which implement policies and operationalize programs contribute greatly to their continued disempowerment.

Macro Sphere

The Macro environment within which women entrepreneurs develop and grow comprises many interconnecting structures and dynamics, including laws and regulations, economy, international trade: including market liberalization and globalization, availability of finance and credit, labor market, human capital resources, technology, physical infrastructure and natural resources.

This environment has an impact on all enterprises, large and small, run by both women and men. There is much evidence to indicate that women are at a more disadvantageous position compared to men in terms of the opportunities and barriers arising from these structures and dynamics. It is partly because women's ability to bargain in the labor market, as in other arenas, critically affected by predominant gender ideology and practices.

4.5 Challenges in the Path of Women Entrepreneurs

The problems and constraints experienced by women entrepreneurs have resulted in restricting the expansions of women entrepreneurship across the world. The major barriers encountered by women entrepreneurs can be consolidated as:

Lack of Confidence

Women generally lack confidence in their own capabilities. Having accepted a subordinate status for long, even at home, members of the family do not appear to have total confidence in their abilities and in their decision making capacities.

Society in general also lacks confidence on women's strength, traits and competence. This is quite apparent in the family's reluctance to finance a woman's venture, bankers are reluctant to take risks on the projects set by women, and individuals are unwilling to stand guarantee for loans to women.

Problems of Finance and Working Capital

Another problem faced by women entrepreneurs is lack of access to funds because they do not possess any tangible security and/or other assets. Since women do not enjoy right over property of any form, they have limited access over external sources of funds.

This situation needs to be improved with time and women entrepreneurs must get their financial freedom.

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CASELET: Kiran Mazumdar

"My vision is to grow into a global bio therapeutics company with very innovative and proprietary products and technologies."

– Kiran Mazumdar, CEO, Biocon

She is India's first woman Brew Master and the founder director of the Biocon Group. India's first lady biotech entrepreneur, Kiran Mazumdar was born and brought up in Bangalore. She was educated in Bishop Cotton Girls School and Mount Carmel College in the same city. Mazumdar's childhood ambition was to be a doctor, but when she was unable to get admission in a medical college, she decided to study zoology. After graduation, she was encouraged by her father (who was a brew master) to pursue a career in the science of fermentation. She went to Ballarat College in Melbourne to study malting and brewing technology and qualified as a Brew Master.

After returning to India, she worked with her father for a few years as a consultant to some breweries in Kolkata, Mumbai and Bangalore. She was on her way to join a brewery in Scotland when a chance meeting with the founder of Biocon Biochemicals (Ireland), Leslie Auchincloss, steered her into a career in business. She started Biocon India in 1978 in a joint venture with the Irish firm. The company was first set up in her garage in Bangalore and later shifted to a rented house in the suburbs of the city. Her Irish partners were willing to help her set up the company but she refused their help as she wanted to build the company totally on her own. In 1980, the company acquired 20 acres of land in Bangalore and shifted operations to the new location.

In the late 1970s, biotechnology was unheard of. As a result, it was not easy to obtain funds for the venture. Banks and financial institutions were wary of giving her loans as biotechnology was a new field and was therefore considered "high risk". Being a woman, and one with no business qualification at that, made things even more difficult. Mazumdar also faced problems recruiting people. People were reluctant to work for women entrepreneurs as they doubted their credibility. She soon overcame these problems through dedication and hard work.

In 1999, the Biocon Group was formed with the merger of all the companies under Biocon, i.e. Biocon India Ltd (founded 1978), Biochemizymes (founded 1990), Syngene (founded 1994) Biocon Quest (founded 1996) and Helix (founded 1998). Commenting on Mazumdar's foresightedness, R.A Mashelkar, director-general of CSIR said, "Kiran Mazumdar has the ability to see an opportunity much before others."

Mazumdar won a number of awards. Prominent among them were the Padmashri in 1989 and the Rotary Award for Best Model Employer. She also won the M. Visweswariah Award in 2002 for her achievements as an industrialist and her contribution to society. Mazumdar also held positions in industry councils. She was Vice President of the Association of Women Entrepreneurs of Karnataka (AWAKE) and the chairperson of the Vision Group on Biotechnology in Karnataka, which was charged with formulating the state's Biotech policy.

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Under Mazumdar's leadership, Biocon grew from a small business in the garage of her house to becoming the largest biotech company in India. She was able to achieve this by attracting and retaining the best talent in the country. She said that she was able to achieve this success because of her belief in the field, her magnificent team of people who shared her passion and her determination, and her desire to succeed. Mazumdar wanted to make Biocon a global bio-therapeutics company which developed innovative and proprietary products and technologies.

Source: Janakiram.B., (2010), "Role and Challenges of Entrepreneurship Development". Excel Books Pvt. Ltd.

Socio-cultural Barriers

A woman has to perform her family duties irrespective of her career as a working women or an entrepreneur. Traditionally in our society, more importance was given to educating the male child as compared to the female child. This has resulted in lack of schooling and vocational training of women, shortage of technical skills and thereby lack of awareness of opportunities available.

This adds to the constraints in establishing enterprises by women. Even the male labor force generally does not prefer to work under a lady boss. Women entrepreneurs are not taken seriously enough by the labor force. All these hinder women entrepreneurship.

Production Problems

Production in a manufacturing enterprise involves coordination of a number of activities. While some of these activities are in the control of entrepreneur, there are others over which she has little control. Improper coordination and delay in execution of any activity cause production problems in industry. The inability of women entrepreneurs to keep pace with implementing the latest advances in technology and lack of technical know-how results in high cost of technology acquisition and machinery utilization. These problems result in increased cost of production and adversely affect the profitability of the unit.

Inefficient Marketing Arrangements

Heavy competition in the market and lack of self-mobility makes the women entrepreneurs dependent on middlemen. For marketing their products, women entrepreneurs are at the mercy of middlemen who pocket a major chunk of profit. Further, women entrepreneurs also find it difficult to capture the market and make their products popular because of the resistance posed by the society. In addition, women entrepreneurs face difficulty in collection of payments.

Suggestions for Improvement in the Status of Women Entrepreneurs

Hisrich has suggested six ways to help women entrepreneurs to successfully develop and manage new enterprises.

1. **Acquire some experience in dealing with money:** By applying for some loan and repaying it back if not required, filing tax returns, managing the finances for family, obtain booking keeping experience, etc.
2. **Conduct honest self-appraisal:** Identify the strength and the weak areas, seek family and friends help for the same.
3. **Gain occupational work experience:** Rotate to various job profiles to gain experience of marketing, finance, planning.
4. **Prioritizing responsibilities:** Identify and delegate responsibilities at home and in business, organize and prioritize work.
5. **Establish a support system:** A strong network of family, friends, clients, business associates should be established.

6. **Be determined and professional in the business:** It is also very important; it helps in gaining respect and confidence from employees, customers financiers and other professional associates.

4.6 Women Empowerment

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A nation can only be developed if its women are given ample opportunities. Developing entrepreneurship among women will be right approach for women empowerment. This would enhance their socio-economic status. Once a woman feels that she is economically strong, she will feel equal to man in all respect. This is perhaps the need of the hour.

The term 'women empowerment' has come to occupy an important position globally over the years. Educational attainment and economic participation are the key constituents in ensuring empowerment of women. The economic empowerment of women is a vital element of strong economic growth in any country.

Entrepreneurship happens to be one of the best ways towards self-sufficiency and poverty alleviation for women in a country where employment is not guaranteed. Involvement of women in entrepreneurial activities would ensure effective utilization of labour, generation of income and hence improvement in quality of life. Women empowerment through entrepreneurship is must for a modern developed economy.

Women empowerment is a new phrase in the vocabulary of gender literature. In a general sense, it refers to empowering women to be self-dependent by providing them access to all the freedoms and opportunities, which they were denied in the past only because of their being women. In a specific sense, women empowerment refers to enhancing their position in the power structure of the society. Empowerment of women has five components: women's sense of self-worth; their right to have and to determine choices; their right to have access to opportunities and resource; their right to have the power to control their own lives, both within and outside the home; and their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally.

Example: Neelam Dhawan, Managing director of Microsoft India, has carved a special niche for herself in the IT industry. She looks after the company's sales and marketing division of the country in India.

In today's competitive world, there are various ways by which women get themselves empowered. The entrepreneurship of women is considered to be an effective instrument to the economic development and empowerment of women. While women entrepreneurship in India is encouraged by various Government policies, the Self Help Groups (SHGs) help even economically poor and socially backward women to come together and succeed by their collective efforts. The policies and programmes of the government motivate, assist and guide entrepreneurial development of women. The response of women to the programmes is large and widespread in Tamil Nadu. The success of those women entrepreneurs will significantly speed up the progress of economic development and removal of poverty in the state. As empowerment of women basically depends on gaining financial, social and cultural strength, their performance as entrepreneurs in their business becomes crucial to reach this goal.

CASE STUDY: Women's Woe

Vishal and Angeera had started their dream project, "Pragati Medical Store" a retail outlet for pharmaceutical products. Vishal started his job as a cadet in Indian Army 15 years back and had risen to the post of Colonel. Unfortunately, he lost his left arm during Kargil War. This was a critical time for both Vishal and Angeera for they had to take a decision about what to do next? Vishal was no fit to work in army; the pension given by government was not enough to

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support the family of five. And since he had joined army at an early age immediately after his 10+ 2 he had no other formal training to look for an alternative career. But Angeera, his wife had done her graduation in pharmacy. She suggested that they could open a pharmaceutical retail outlets, she was qualified enough to get a license to open the drug store and was willing to venture into something that both of them could together start. So they opened 'Pragati Medical Store'. Angeera did the entire ground job, got the license, visited the doctors in the nearby area, persuaded the doctors to recommend her store to their patients, stocked the store with all the medicines prescribed by the doctors. Vishal and Angeera were a perfect duo for the store, Vishal looked after the accounts and Angeera looked after the PR with doctors, the marketing and sales and maintenance of the stock.

The store started of well and made good gains in the first two quarters, Angeera was putting in lot of hard work as she was taking care of all the marketing, sales, purchase and PR. What came to her as a surprise was the behaviour of the dealers (who were supplying medicines). Medical representatives and customers was very cold towards her. They found dealing with her very distasteful, as it was the men's field, without exception all the stores in town except for Pragati were managed by men. In fact, most of them requested and a couple of them demanded that they wanted to deal with her husband. She was so shocked by their behaviour, technically she was the qualified one and it was for her efforts that doctors were recommending Pragati Store to buy medicines but the customers, Medical Representatives and suppliers of medicine would equivocally say 'Vishal Bhai Sahab Nahee Hae Kya' (Is Vishal not around). She really got annoyed and lost her temper at times and scorned at them, "What on earth makes you believe that I cannot handle your queries. It is for people like you that women are not getting the respect they deserve. I am more qualified than your Bhaisahab to run this shop and I am the one who has brought this dream to a reality but you guys want to deal with Bhaisahab. You should make let your sisters and daughters study as you and your bloody society can never ever digest women empowerment and women liberalization. You better get out of this place as this place belongs to me – I am the owner of 'Pragati Medical Store' and I am the one who will write its fortune. So get lost.' Later on Angeera was very upset and sat wondering "Is India actually developing? Are women's really getting liberalized? Why have women not been able to earn the respect for earning their living?".

Questions

1. What is the problem in the case?
2. How much do you think Angeera's retaliation towards her clients, MR's and suppliers justified?
3. Do you think women in India are liberalized enough to become entrepreneurs?
4. What are your recommendations to Angeera?

Source: Lall.Madhurima,Sahai.Shikha(2008), *"Entrepreneurship"*. Excel Books Pvt.Ltd.

4.7 Grassroot Entrepreneurs: Meaning and Definition

Grassroots entrepreneurs are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems – in our case, to expand liberty. The idea is also known as social entrepreneurship. While profit-making is the legitimate social benefit of business entrepreneurs, grassroots ventures have another purpose, such as passing school choice legislation or organizing to oppose a tax increase. Grassroots entrepreneur can be defined as follows:

"A person who pursue an innovative idea with the potential to solve a community problem. These individuals are willing to take on the risk and effort to create positive changes in society through their initiatives."

Example: Kalamandir: This organization's initiatives with the tribals in Jharkhand to support, nurture, and disseminate a finer aesthetic sense among individuals, communities, organizations, and social groups serves as a bridge between the producers and the consumers.

Just as entrepreneurs change the face of business, grassroots entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society for the better. However, unlike business entrepreneurs who are motivated by profits, grassroots entrepreneurs are motivated to improve society. Despite this difference, grassroots entrepreneurs are just as innovative and change oriented as their business counterparts, searching for new and better ways to solve the problems that plague society.

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CASELET: Grassroot Entrepreneurship, Vanguard of Growth

The absence of grassroots entrepreneurship is the very reason why sustainable economic growth has eluded Pakistan for so long. We continue to be bogged down in addressing problems related to the survival of existing businesses and that is why we never realize economic growth as achieved by many including the Asian Tiger countries, India and China over the last two to three decades.

In the true economic model it is not the government's responsibility to provide jobs; their most important job is to act as facilitators and in helping and creating an environment which is favorable for entrepreneurs. The entrepreneurs in turn create jobs and give back to the government the much needed tax revenue for improving infrastructure and creating an attractive investment environment.

Where have we gone wrong? Three issues stand out, which are short-term thinking and planning, lack of focus on teaching 'Entrepreneurship' in our educational institutions and third, the lack of government incentives for promising new entrepreneurs. Let us elaborate a bit on these.

Short-term Thinking and Planning

Unfortunately today, discussion and debates are centred on challenges facing existing businesses and their sustainability. No time is spent in identifying opportunities and in finding ways to encourage grassroots investment as an engine for job creation and sustainable GDP growth. A proper vision and detailed planning needs to be carried out and institutionalized.

Lack of Entrepreneurship Focused Education

We need to develop a culture of entrepreneurial thinking and integrate it into our educational system. Entrepreneurship courses need to be designed and introduced at all levels and made mandatory at graduate level. Let's take 'Engineering' curriculum as a case in point. Entire focus in these programs is on acquiring technical knowledge but no entrepreneurial skills..

Lack of Government Incentives

Taxing a business that barely exists does not add much to the government exchequer. Many businesses are booming in other nations dominated by an educated middle class but they have not taken root in Pakistan. One case in point is the still infant Information Technology (IT) industry especially as it relates to back-office outsourcing services of major corporations and software/application design and support.

Remember that every new business will not only benefit the owner, but the city, region and country as a whole. We must encourage entrepreneurship and work towards creating specialised government agencies, business incubators, science parks and lay down a strong foundation for young entrepreneur education and simple access to business capital.

Source: http://tribune.com.pk/story/358328/grassroot-entrepreneurship-vanguard-of-growth/

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Grassroots entrepreneurs are:

1. **Ambitious:** Grassroots entrepreneurs tackle major social issues, from increasing the college enrollment rate of low-income students to fighting poverty in developing countries.

   These entrepreneurial leaders operate in all kinds of organizations: innovative nonprofits, social purpose ventures such as for-profit community development banks, and hybrid organizations that mix elements of nonprofit and for-profit organizations.

2. **Mission driven:** Generating social value – not wealth – is the central criterion of a successful grassroots entrepreneur. While wealth creation may be part of the process, it is not an end in itself. Promoting systemic social change is the real objective.

3. Strategic: Like business entrepreneurs, grassroots entrepreneurs see and act upon what others miss: opportunities to improve system, create solutions and invent new approaches that create social value. And like the best business entrepreneurs, grassroots entrepreneurs are intensely focused and hard-driving – even relentless – in their pursuit of a social vision.

4. Resourceful: Because grassroots entrepreneurs operate within a social context rather than the business world, they have limited access to capital and traditional market support systems.

   Grassroots entrepreneurs must be exceptionally skilled at mustering and mobilizing human, financial and political resources.

5. **Results-oriented:** Ultimately, grassroots entrepreneurs are driven to produce measurable returns. These results transform existing realities, open up new pathways for the marginalized and disadvantaged, and unlock society's potential to effect social change.

Today, grassroots entrepreneurs are working in many countries to create avenues for independence and opportunity for those who otherwise would be locked into lives without hope.

Whether they are working on a local or international scale, social entrepreneurs share a commitment to pioneering innovation that reshape society and benefit humanity. Quite simply, they are solution-minded pragmatists who are not afraid to tackle some of the world's biggest problems.

Example: Well known grassroots entrepreneurs include Prof. Muhammad Yunus, who won a Nobel prize for his work expanding micro-lending to the poor in Bangladesh, comedian Drew Carey, who is producing pro-freedom videos with Reason TV, and Ward Connerly, who pioneered ballot measures opposing racial quotas in state governments.

Examples of grassroots entrepreneurship include microfinance institutions, educational programs, providing banking services in underserved areas and helping children orphaned by epidemic disease. The main goal of a social entrepreneur is not to earn a profit, but to implement widespread improvements in society. However, a social entrepreneur must still be financially savvy to succeed in his or her cause.

4.8 Self-Help Groups

Self-Help Group (SHG) is a group of 12 to 20 women of the same socio-economic background who come forward voluntarily to work together for their own upliftment. The unique feature of the SHG is its ability to inculcate among its members sound habits of thrift, savings and banking Regular savings, periodic meetings, compulsory attendance, and systematic training are the salient features of the SHG concept. Each group selects one animator and two representatives from among themselves. The animator is responsible for providing leadership to the group and to maintain the various registers. The representatives assist the animator and maintain the bank accounts of the group.

SHG is a small group of rural poor, who have voluntarily come forward to form a group for improvement of the social and economic status of the members.

1. It can be formal (registered) or informal (unregistered).
2. The concept underlines the principle of Thrift, Crédit and Self Help.
3. Members of SHG agree to save regularly and contribute to a common fund.
4. The members agree to use this common fund and such other funds (like grants and loans from banks), which they may receive as a group, to give small loans to needy members as per the decision of the group.

Need for SHGs

The rural poor are incapacitated due to various reasons. Most of them are socially backward, illiterate, with low motivation and poor economic base. Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process. However, in a group, they are empowered to overcome many of these weaknesses. Hence, there is need for SHGs, which in specific terms are as under:

1. To mobilize the resources of the individual members for their collective economic development.
2. To uplift the living conditions of the poor in rural areas.
3. To create a habit of savings among the poor from their little earnings.
4. Utilization of local resources which are idle through members.
5. To mobilize individual skills for group's interest.
6. To create awareness about the rights and duties and make people conscious for the same.
7. To assist the members financially at the time of need and make them free from the clutch of greedy money lenders.
8. To develop Entrepreneurship competencies by utilizing the inherent talent and skill.
9. To identify problems, encountered by the members and finding solutions for feasible implementation of the same.
10. To act as a media for socio-economic development of the village.
11. To develop linkages with institutions of NGOs for financial and non-financial assistance and support.
12. To organize training for skill development to generate entrepreneurial ability.
13. To gain mutual understanding, develop trust and self-confidence that 'each one is for every one'.
14. To build up teamwork on the basic philosophy of 'two brains are better than one'.
15. To develop leadership qualities to lead the group and develop followers to achieve the goals.
16. To use as an effective delivery channel for rural credit, so that rural urban difference will be minimized.

4.9 Microfinance as a Tool for Grassroot Entrepreneurship through SHG's

Today, rural women have acquired a secondary statue in social life, economic activities and decision making among their families. Their role in productive work, employment generation and income oriented activities is hindered by many socio-economic constraints. Hence, there is a need to formulate policies, which aims for the empowerment and entrepreneurship of women.

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Figure 4.1: Self Help Groups and Microfinance

Source: http://www.kanyakumari.tn.nic.in/images/selfwork.jpg

It is definite that if appropriate skills and opportunities of decision making are given to women, they are proving that they are, if not superior, at least equal to men. Women are considered to be good leaders in matters requiring collaboration, group integration and ability to listen and motivation. Recent trends in India and even at global level women are far more superior to men in various aspects of development. Only problem is that so far the society has given little chance to women to enter into the fields of various economic activities. Hence, it is necessary today to empower women by providing the facilities to enter into various economic activities to make themselves economically independent and socially confident in their endeavor.

Micro finance through the self help groups has a lot of role to play in the grassroots entrepreneurship as well as women empowerment. Economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. While lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts, borrowers as a part of a SHG cut down expenses on travel (to and from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans. A Non-Governmental Organization (NGO) is a voluntary organization established to undertake social intermediation like organizing SHGs of micro entrepreneurs and entrusting them to banks for credit linkage of financial intermediation like borrowing bulk funds from banks for on-lending to SHGs.

Micro credit appears to improve the lives of those who are poor by increasing their buying and investing capability, this lifting them onto a higher economic plane. Accordingly, these small loans seem to positively affect poverty by creating entrepreneurship and greater self-reliance among the poor. SHGs now constitute the grass roots level institutions developed for social/economic and financial intermediation with a focus on the poor. The SBLP is "overwhelmingly based on the principle of financial services being related to the cash flows of the low-income client groups and thus aim to facilitate relatively frequent and very small or micro-loan and saving transactions"(Sinha, 2003). In the financial year 2007-08, Microfinance in India through its two major channels - Self-Help Group Bank Linkage Programme (SBLP) and MFIs served over 33 million Indians, up by 9 million over the previous year. 4 out of 5 microfinance clients in India are women.

Self-help groups are usually informal groups whose members have a common perception of need and importance towards collective action. These groups promote savings among members and use the pooled resources for multi dimensional development.

Becoming a member in SHG ensures women to become socially and politically empowered.

The concept of SHG generally rejuvenate the rural women as it helps in breaking the vicious circle of poverty among women, thereby to become economically viable.

Self Help Groups (SHGs) have been successful in empowering rural women through entrepreneurial activities. Increase in income, expenditure and saving habits of rural women were observed. The SHGs had major impact on social and economic life of rural women.

Example: Rang De. Founded by Ramakrishna and Smita Ram in January 2008, Rang De is a peer-to-peer online platform that makes low-cost micro-credit accessible to both the rural and urban poor in India.

A study revealed an increase in social recognition of self, status of family in the society, size of social circle and involvement in intra family and entrepreneurial decision making. There was an increase in self-confidence, self-reliance and independence of rural women due to the involvement in the entrepreneurial and other activities of SHGs. SHGs could be linked to literacy programmes run by government and it could be made an integral part of SHG activities. Raised literacy level could be helpful for the SHG members to overcome cognitive constraints and to understand government policies, technical understanding and gaining required skills.

Rural women could be motivated to avail finances for starting the entrepreneurial activities. Awareness created about various credit facilities, financial incentives and subsidies through Self-Help Groups. As women were found technologically less empowered, they are to be imposed to the technologies which are labor saving, drudgery reducing, income generating and productivity increasing. Entrepreneurship education and trainings could be introduced at all levels from basic education. It could be helpful in inducing positive self-concept, self-reliance, self-confidence and independence in rural women.

CASE STUDY: KCC and Social Entrepreneurship

Alicia Polak founded Khayelitsha Cookie Co. with an intention to help local women to change their lives. The tagline of KCC - "Creating opportunity one bite at a time" clearly represents the way Alicia selected to improve the standard of living of few people living in Khayelitsha that is one of the most unprivileged areas of South Africa. Khayelitsha is one of the largest and dangerous townships near Cape Town where most of the people live in extreme poverty and unemployment. KCC employed most of the women they had never been employed earlier and were living on grants of government. Skill training is one of the major activities at KCC. Employees were trained on various aspects of business viz. business communication, customer relationship management, inventory management, computer skills etc. along with baking, packing and labeling. Full time employment raised the self esteem of the employees and made them feel proud; at the same time monetary benefits earned by them helped them to improve the way they used to live earlier.

Polak started the KCC investing her own money ($10,000) with an expectation that if this model works she will be able to help few people to change their lives. Initially, Nokwanda was the only employee working for KCC, but within two year of its inception KCC employed more than 10 employees to bake varieties of cookies (Choc Chunk, Ginger Snap, Safari, Brownies and Shortbread biscuits) and sell into coffee shops, restaurants and hotels. Within two year of its inception, KCC started selling an average of around 13,000 cookies in a month.

The Bakery manager of KCC, Zanele Bam who is in early thirties is a living testimonial depicting the success of this venture. She said "I have learned business skills, I have learned how to handle business tasks, how to work with clients and also communication skills. If you can't manage yourself, you can't manage others".

In order to help the society, KCC donates a portion of its profit to the Philani Clinic in Khayelitsha. This cookie business owned a remarkable success as it got accepted by customers and retailers. In the year 2006, Oprah Winfrey recently featured KCC and its products on her TV Show, a highest rated talk show which is being watched by more than 22 million people.

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Alicia Polak is highly positive that she will be able to empower more and more women and to attract more international customers by replicating this KCC model in different countries irrespective of their languages and cultures.

Questions

1. Sketch a SWOT analysis of the case.
2. What was the idea behind KCC?
3. Is it practical to replicate KCC model in different countries? If yes, explain how.

Source: Janakiram.B, (2010), "Role and Challenges of Entrepreneurship Development". Excel Books Pvt.Ltd.

4.10 Evolution of Family Business

In India, family businesses account for about 70% of the total sales and net profits of the biggest 250 private sector companies. The role of business in the society has witnessed a dramatic change in the recent times.

Yesterday, it was the business as family. Today, it is the family as business. And tomorrow, it will be the business of the family to ensure that there is a future for both the business and the family. While radical strategic, operational, and financial transformation is a given for any corporation that hopes to survive the trauma of competing in the post-liberalization market-place, India's business houses have yet another agenda for change: rewriting the role of the family.

Stages of Family Business Development:

The typical family business goes through four stages in its development:

1. Entrepreneurial
2. Functionally-Specialized
3. Process-Driven
4. Market-Driven

Entrepreneurship is not just a way to increase the level of innovation and productivity of organizations, although it will do that. The concept of Entrepreneur and Entrepreneurship incorporates basis qualities of leadership, innovation, enterprise, hard work, vision and maximization of profits.

It is the family that must initiate and implement the changes that are involved. An added motive for change comes from the realization that the family and the business are essentially two separate institutional systems with distinctive rules governing their respective behaviors - whose boundaries have overlapped within the business house.

Thus, the exclusive dynamics of family culture and relationships have been imposed on the internal logic of managing a business enterprise, with results that haven't helped the perpetuation of either of the two entities. So, it is now essential for the family to appreciate this distinction and with draw to prevent the conflicts between the rules, messages, and expectations for behavior in each system that are weakening business. That's why a series of vital choices over its future role confronts the country's business family as it seeks to make family business survive.

4.11 What is Family Business?

In a family business, two or more members within the management team are drawn from the owning family. Family businesses can have owners who are not family members. Family businesses may also be managed by individuals who are not members of the family. However, family members are often involved in the operations of their family business in some capacity and, in smaller companies, usually one or more family members are the senior officers and managers.

Definition of Family Business

There are various definitions of a family business. In fact, there are as many definitions as there are authors writing on family businesses. However, in general, a family owned business is one

1. In which two or more extended family members influence the business through the exercise of kinship ties, management roles and ownership rights and/ or
2. Which the owner intends to pass to a family heir.

Family business writers have contributed scores of definitions in the family business literature emphasizing different aspects of a family business, particularly the form and level of family involvement, or ownership control, the anticipation or occurrence of an intergenerational transfer of ownership or management control. There are various definitions of family run business and these can be grouped into two:

1. **Structural definitions:** These definitions focus on the firm's ownership or management arrangements. "Ownership control by the members of a single family." *Barry (1975)*

   "Ownership control by a single family or individual." *Barnes and Hershon (1976)*

   "A small or closely held business". *Becker and Tillman (1978)*

2. **Process definitions:** these definitions stress on how the family is involved in the business – its influence on company policy, its desire to perpetuate family control of the business and so on.

   "Closely identified with at least two generations of a family; link has had a mutual influence on company policy and the interests and objectives of the family." *Donnelley (1964)*

   "Two or more family members influence the direction of the business through the exercise of management roles, kinship ties, or ownership rights". *Tagiuri and Davis (1982)*

To summarize, we believe that the essence of a family business consists of a vision developed by a dominant coalition controlled by one or a few families and the intention of that dominant condition to continue shaping and pursuing the vision in such a way that it is potentially sustainable across generations of the family. We use intention instead of ability because a financially failing family business does not cease to be a family business. To capture this following definition is proposed:

"The family business is a business governed and /or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."

Thus, we arrive at a working definition of a family business. A family business is a unique synthesis of the following:

- Ownership control (15 percent or higher) by two or more members of a family or a partnership of families
- Strategic influence by family members on the management of the firm, whether by being active in management, by continuing to shape the culture, or by serving as advisors or board members
- Concern for family relationship
- The dream (or possibility) of continuity across generations

Characteristics of Family Business Firms

The following characteristics define the essence of the distinctiveness of family firms:

- The presence of the family

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- The owner's dream of keeping the business in the family (the objective of business continuity from generation to generation)
- The overlap of family, management, and ownership, with its zero -sum (win-lose) propensities, which render family businesses particularly vulnerable during succession
- The unique sources of competitive advantage derived from the interaction of family, management, and ownership, especially when family unity is high

Types of Family Business Firms

1. **A family owned business** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family.
2. **A family owned and managed business** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control.
3. **A family owned and led company** is a for profit enterprise in which a controlling number of voting shares, typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the Board of directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture and strategies.

4.12 Current Scenario of Family Business Management International Scenario

The family firms still dominate business life around the globe, and they are especially important in the emerging markets of Asia and Latin America. Germany, Japan and the US were quick to adopt the corporate form of organization as they industrialized in the late 19th and early 20th centuries, and today their economies are hosts to giant, professionally managed corporations like Siemens, Toyota, Ford, and Motorola.

"Before the multinational corporation, there was family business. Before the Industrial Revolution, there was family business. Before the enlightenment of Greece and the empire of Rome, there was family business." — William O'Hara

Majority (65 - 80 %) of all businesses worldwide are owned or controlled by families, including 40 percent of the Fortune 500 corporations. In the United States, family businesses employ more than half of the workforce and generate more than half of the gross domestic product (GDP). Indeed, family-controlled businesses are the dominant form of business throughout much of the world.

Germany, Japan and the US were quick to adopt the corporate form of organization as they industrialized in the late 19th and early 20th centuries, and today their economies are hosts to giant, professionally managed corporations like Siemens, Toyota, Ford, and Motorola. On the other hand, the private sectors of France, Italy, and capitalist Chinese societies like Hong Kong, Taiwan are dominated by smaller, family-owned and managed businesses.

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Family business management is one of the oldest forms of management. The family owned businesses in the world were basically hailed from Japan (Kongo Gumi family in Construction business in the year 578 & Ho Shi family in Hotel business), followed by family owned businesses in Austria, France and Italy (All connected with food items - restaurant, wine, foundry).

Some of the top conglomerates which belongs to the Family Business Management category are:

Name	Industry	Founded	Revenue	Employees
Wal-Mart Stores	Retail chain	1962	$244.5 billion	1.4 million
Ford Motor	Auto manufacturer	1903	$163.4 billion	350,321
Samsung	Conglomerate	1938	$98.7 billion	175,000
LG Group	Conglomerate	-	$81 billion	130,000
Carrefour Group	Retailing	-	$72.035 billion	396,662

In the top "Global 250" family business houses, U.S. companies account for the lion's share i.e. 130 out of the 250, far ahead of runner-up France with 17 and Germany with 16. But only seven U.S. companies made the top 25. Korea, where power is concentrated among family-run industrial groups, placed only three companies on the "Global 250" — but all three ranked in the top 11, and two of those placed among the top four. Clearly, family economic power remains much more concentrated in some countries than in others.

Indian Scenario

Family Business contributes 60-70 percent of GDP of most developed & developing countries. India is no exception. Given the importance of family-run businesses in the Indian economy, such news is, to say the least, worrying. Sixty-six of Business India's Super 100 companies are family-run. According to Business Today, family-run businesses account for 25% of India ink's sales, 32% of profits after tax (pat), almost 18% of assets and over 37% of reserves. In the other side, just 13 percent of the Family business survives till 3rd generation & only 4 percent go beyond third generation.

Indian firms, by and large, continue to be family-run. And that, too, by the Bania families of the traditional trading castes. It is predominantly the Aggarwals and Guptas in the North, the Chettiars in the South, the Parsees, Gujarati Jains and Banias, Muslim Khojas and Memons in the West, and Marwaris in the East, and, in fact, across the country. Of these, the Marwaris have been the most successful. Fifteen out of the twenty largest industrial houses in 1997 derived from the Vaishya or Bania trading castes. Eight of them were Marwaris. Of the 128 merchant Marwari sub-castes in Rajasthan, only five became big and prominent in national commerce. These were the Maheshwaris, Oswals, Aggarwals, Porwals and Khandelwals. The big old business houses in India include Tatas, Birlas, Bajaj, Reliance, Mahindras and Wadias. J.R.D. Tata was group chairman in 1939, Ratan Tata, his nephew, heads it today. G.D.Birla's great-grandson, Kumar Mangalam, presides over India's sixth biggest business group. Anand Mahindra and Rahul Bajaj are expanding on the base inherited from their grandfathers.

4.13 Scope and Significance of Family Business

In most countries family business is the dominant form of business ownership and management. Historically, companies and other forms of ownership developed following individual and family run farms and businesses, particularly to meet the needs of generating larger amounts of capital and dealing with legal issues such as protection against lawsuits and bankruptcy. It was the Industrial Revolution that replaced family based craft industry with larger manufacturing enterprises. More recently, the rise of a giant service sector generated numerous new opportunities for family ventures.

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Although big, public companies tend to attract the most attention, especially in terms of share offerings, stock values and speculation, family businesses will undoubtedly endure as the backbone of enterprise. The desire for autonomy to be one's own boss and for family independence appears to be a basic and unchanging human trait. This motivator accounts for many career switching entrepreneurs, who start up tourism and hospitality businesses. And it's all just to escape what they do not like about their existing work, and to steer their own economic future. But in lesser developed economies there might be little choice either runs a business of own or move out. Tourism in developing countries offers numerous opportunities for self employment and small, family businesses that otherwise would not exist.

Family businesses are especially dominant in rural and peripheral areas because of traditional land owning patterns and the impracticalities of operating larger corporations in marginal economies. Hence, farm based tourism and hospitalityconsists almost entirely of family businesses. Increasingly, individual and family investors are drawn to rural and peripheral areas or small towns for lifestyle reasons and tourism or hospitality provides the economic means to realize these goals.

Family businesses from every trade imaginable have been around for centuries – from shoemakers to confectioners to farmers. Family owned businesses play a crucial role in the economy of most countries. Much of the retail trade, the small-scale industry, and the service sector are run by family businesses. Worldwide, family managed businesses employ half the world's workforce and generate well over half the world's GDP. In India, family-owned businesses have played and will continue to play a central role in the growth and development of the country. Indian family businesses have been and will continue to be key drivers of the economy, and what changes these businesses need to undertake to continue to succeed.

With time, the contribution of family businesses has gone beyond simply paying taxes and employing people. During the last 100 years or so, Indian family businesses have made significant contributions in three areas.

The Freedom Movement: Familybusinesses were as integral parat of the Indian freedom movement. In the early years, firms were created specifically to pursue ideals such as import substitution and economic freedom from the colonists. The Godrej enterprise, for instance, was started byArdeshir Godrej in 1897 with a vision to promote India's economic freedom.

Spirit of Entrepreneurship: Family businesses have done an excellent job of keeping the spirit of enterprise alive especially through the 40 years of quasi-socialism. The spirit survived onerous taxation and repeated government attempts to undo supposed 'concentration' of economic power.

Philanthropy: Lastly Indian family businesses have played a significant role in giving back to the community. And it is not just the large groups that have been active numerous foundations engaged in charitable work are supported by scores of small and medium family enterprises.

Also, family businesses in India have several inherent advantages that provide them with unique strengths:

Trust Lowers Transaction Costs: It is well documented fact that 'trust'lowers transaction costs, corruption, and bureaucracy. Trust can be a source of significant competitive advantage to a family business. In India, family businesses have often revolved around large joint families.

Small, Nimble and Quick to React: Family businesses, both small and large, tend to be quick to react to threats as well as opportunities. There are fewer decision making gates and constituencies to deal with. Very often the survival of the family depends on the survival of the business.

Information as a source of advantage: Many family businesses are private enterprises. This is an advantage since a private company can see the strengths and weaknesses of its public competitor and act accordingly while the converse is not true.

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4.14 Family Business System Governance

The "3-Circle" Model of Family Business

The "3-Circle" Model developed by Tagiuri and Davis at Harvard (J. Davis 1982; and j. Davis, 1982,1989) incorporates family, business and ownership systems into the definition of the family business system. Each of these systems interacts with the others and influences their membership, goal and dynamics. Each system in the 3-circle model has a developmental framework and is given below:

The business system: Start up, expansion/ formalization and maturity.

The family system: Young business family, entering the family business, working together, passing the baton.

The ownership system: Controlling owner, sibling partnership, cousin consortium.

In a family business, the business, family and ownership all need governance. Effective governance in the family business generates a sense of direction, values to live by or work by and well understood and accepted policies that tell organization members how they should behave or what they should do in certain circumstances. Good governance contributes three fundamental ingredients for a healthy family business system functioning:

- Clarity on roles, rights and responsibilities for all members of the three systems.
- Discipline to help members of the family, business employees, and owners act responsibly.
- Regulating appropriate family and owner inclusion in business discussions.

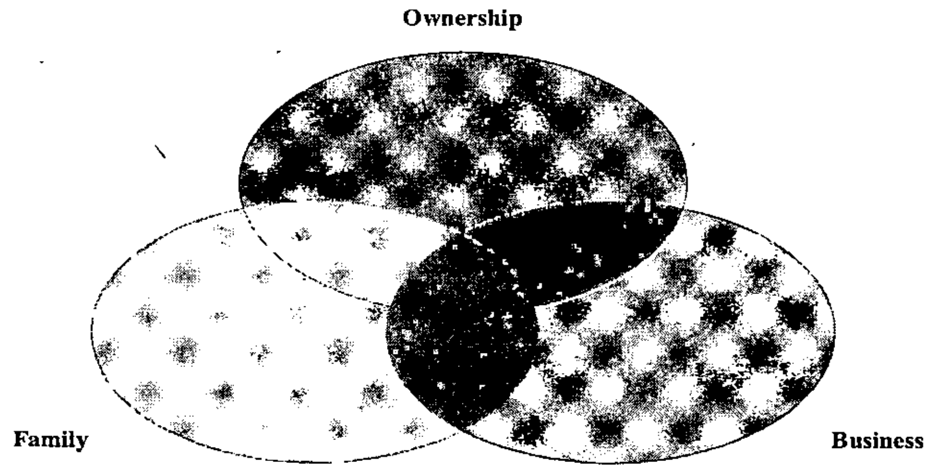

Figure 4.2: Model of Family Business

Most family business systems can be governed by a structure. Senior management is the organizing mechanism and voice of the employees. Each circle has a governance structure and a plan.

- A family council would govern the family and prepare a family plan.

- A management team would lead the business and prepare a management development plan for succession and a business plan.
- A board of directors would govern the owners or shareholders and would be responsible for the strategic plan, continuity plan, contingency plan and the succession plan.

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Governance of the Family Business

There are three components to family governance:

- Periodic (typically annual) assemblies of the family; all families in business can benefit from this activity.
- Family council meetings for those families that benefit from a representative group of their members doing planning, creating policies, and strengthening business-family communication and bond.
- A family constitution—the family's policies and guiding vision and values that regulate members' relationship with the business. This written document can be short or long, detailed or simple, but every family in business benefits from this kind of statement.

The rare family in business may have a more elaborate family governance structure, with a separate meeting for family-owner-managers or a separate council for family shareholders or periodic meetings between shareholders, the board, and management. I prefer the simplest structure that does the job and the three components above are all most families in business need.

Properly composed and managed, a family assembly and family council help:

- Develop clarity on roles, rights, and responsibilities for family members.
- Encourage family members, family employees, and family owners to act responsibly toward the business and the family.
- Regulate appropriate family and owner inclusion in business discussions.

The family assembly typically meets annually, lasts one to two days, and includes all adult family members (yes, including in-laws). Families need to decide at what age children should attend these meetings. One family says that children should attend when they are able to feed themselves; most families start bringing the younger generation into meetings at around age 16. For the young children, families should still consider organizing some group activities where the children can begin to learn about the business and develop relationships with their siblings and cousins. Family assembly activities include learning about the business through presentations by family and non-family managers, discussing (not deciding) the direction of the company, being educated about what the company does or about important skills like reading financial statements. It is also a good forum to get updated on changes in the family such as important events and accomplishments, and on changes in ownership. For example, have any shares changed hands since the last meeting? Are there new tax laws shareholders need to be aware of?

If your family has fifteen or fewer adults, you may be able to have in-depth discussions and create plans and policies in the family assembly meeting. When the family grows beyond this size certainly, families generally benefit from having a family council. The family council can perform all of the following duties:

- Plan family assembly meetings, which otherwise the CEO usually has to arrange.
- Discusses current business, ownership, and family issues and direction and keep the family informed about these.
- Help the family reach decisions and speak with one voice about its goals.
- Keep the board of directors informed about family views about the company and maintain a dialogue with the board about key business policies and plans.

- Develop plans and policies, in conjunction with the board, that regulate family activity with the business.
- Guard against family interference with the business while seeing that the family's key goals are satisfied.
- Develop loyal, informed, contributing family shareholders.
- Scout the family for business talent.
- Create educational events or otherwise encourage the education of family members about the business.
- Plan family social gatherings and rituals and help to create healthy, harmonious family relationships.

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Any family council that accomplishes these tasks strengthens a family's relationship with its business and its discipline and is a valuable resource for management and the board.

The family council can be composed in several ways, the typical way being one member elected per family branch. One should try to compose the family council so that it "looks" like the family, having adequate representation of all generations, genders, in-laws, actives and passive owners, hometown and geographically distant relatives. The family council typically meets a few times each year for one or two days each time. Most families reimburse family council members for their expenses but do not offer any compensation for their service. Other families feel at least a modest compensation is warranted and earned.

Families in business need to nurture members' feelings of trust and pride concerning the family and business as well as build a sense of teamwork to keep a family committed and disciplined in its relationship to the business. It is wise, therefore, in the family council and family assembly to emphasize consensus decisions around family goals and policies, openness to various viewpoints, as well as significant transparency in company operations, decision making, and ownership holdings. If the family is reluctant to engage in the discussions it needs to have in the family councilor assembly—out of concern about potential family conflict, not understanding what these groups should do or just being shy in these meetings—hire a facilitator to help organize the meetings. Good structures that do not address the right topics are a costly waste of time.

The board and family council should coordinate their work and not overstep each other's domains. Coordination may take the simple form of having the council and board update each other periodically on their important objectives, having an annual joint planning session, or having a board member sit on the council or vice versa. Again, I opt for the least complicated solution to achieve adequate communication and coordination between these two groups.

The family constitution articulates a family's vision for itself and the business, its core values and the policies and guidelines that maintain family discipline. Among the policies a family council might create include:

- Employment standards for the next generation.
- Career development policies for family employees.
- Family compensation.
- Succession process, including retirement ages.
- Ownership, including buy-sell agreements.
- Dividends.

4.15 Succession in Family Business

Succession is not about who sits in the corner office. It's about the survival of the business as an economic entity. That means the incoming leader must first attain a body of critical knowledge,

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and that takes time. The process of succession should begin long before the current leader's retirement party is scheduled – a complete transfer of control can take up to ten years.

Succession planning should involve the whole family, whose goal should be enabling the business to grow and prosper for the family's benefit. The current leaders, who may have started the business, must learn to let go of control – a difficult task for many.

Transfer of control is a process, not an event. It requires leaders to think like professional managers rather than entrepreneurs. They must practice their best management skills to ensure a successful process. They should operate from a written plan that includes a timetable for key events and measurable benchmarks. They also need to identify the person who will be held accountable for achieving the desired outcomes.

It's vitally important to ensure that successors have a solid base of experience away from the family business. They need to be accountable for their performance and know how to handle responsibility and watch the money. Failure to fully understand the financial aspects is a common cause of failure in family businesses.

Finally, the successor who is focused on living well often forgets about minding the store. It is critical to stay focused on feeding the goose that lays the golden eggs, or you could end up dining on burnt offerings.

Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. Taken narrowly, "replacement planning" for key roles is the heart of succession planning. Effective succession or talent-pool management concerns itself with building a series of feeder groups up and down the entire leadership pipeline or progression (Charan, Drotter, Noel, 2001). In contrast, replacement planning is focused narrowly on identifying specific back-up candidates for given senior management positions. For the most part position- driven replacement planning (often referred to as the "truck scenario") is a forecast, which research indicates does not have substantial impact on outcomes.

Companies that are well known for their succession planning and executive talent development practices include: GE, Honeywell, IBM, Marriott, Microsoft, Pepsi and Procter & Gamble.

Some clear objectives that are critical to establishing effective succession planning and may be embedded in the succession process are mentioned below:

- Identify those with the potential to assume greater responsibility in the organization
- Provide critical development experiences to those that can move into key roles
- Engage the leadership in supporting the development of high-potential leaders
- Build a data base that can be used to make better staffing decisions for key jobs
- Improve employee commitment and retention
- Meet the career development expectations of existing employees
- Counter the increasing difficulty and costs of recruiting employees externally

Succession – Three ways to ease Transition

1. **Hire the Most Competent Advisors You Can Find and Afford.** Succession planning is a complicated process and requires different kinds of expertise. Not every profession service advisor has the special training and experience necessary.
2. **Business Valuation is a Critical Element of Succession Planning.** A valuation for sale to the next generation of family has different formulas than a valuation for sale to someone

outside the family. Yet a different formula would be used for estate tax planning purposes. Depending upon the purpose of the valuation, costs can vary significantly.

3. **Funding is Often a Hidden or Non-recognized Cost of Succession Planning.** It is important to understand that the business may need to grow significantly in order to pay the transition costs which include taxes, insurance, professional advisors, setting up trusts and purchasing business stock.

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A good rule of thumb is that the business needs to grow by at least 20 percent more than the normal growth pattern to offset the costs of succession without disrupting the profitability and cash flow of the business. Some of the business, family and board conditions that favor succession transitions in family firms are discussed below:

Business Conditions

1. The transition occurred when the organization was relatively "healthy."
2. The founder moved gradually away from active involvement in the firm's operations.
3. There was a well-developing training and socialization program for the successor.
4. There was an interdependent relationship between the founders and their successors.

Family Conditions

1. The family shared common views concerning equity.
2. The family had planned for emergencies and other contingencies.
3. The family had developed mechanisms to resolve conflict.
4. The family shared super ordinate goals.
5. High trust existed among family members.

Board Conditions

1. Power relationships were clear—little ambiguity.
2. The board had the necessary expertise to manage problems of both the firm and family.

In addition, a study by Stempler (1988) of fifteen family-owned businesses indicates that respect, understanding, and complementary behavior between the next-generation family member and the organizational leader is critical to an effective succession. Handler's (1989) qualitative research in thirty- two family firms confirms that mutual respect and understanding between the founder and next-generation family members running the firm is an important component of good succession outcomes.

4.16 Pitfalls of Family Business

Future Challenges

The "big" issues are yet to come, such as what will happen after Mom and Dad are dead, who will actually end up with control, and what if the company can't afford the cash for distributions to the non-active owners. What if someone wants to cash out of the corporation, or serious conflict erupts between siblings over cousins entering or leaving the business? Many families seem to confuse ownership of the business with membership in the family or assume Mom and Dad's legacy is to spread the ownership around, and some feel that all must share in the financial rewards for years to come.

The Disadvantages of the Family Business

1. **The Risks of Ownership.** The general consensus of family members is that the family business will continue to make a profit thus providing cash for them plus other benefits as it

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has always done in the past for Mom and Dad. However, as business management changes, policies change, in-laws are involved, and seldom are there funds available for non-active owners. Other factors can also manufacture situations that create risk for the business such as:

- Non-active shareholders become angry and demand to see the financial statements in an effort to receive their "fair" share of the income.
- Family unity and commitment to the business weakens.
- Conflict increases between active and non-active siblings and other relatives.
- The market for the business's services and products dries up, or the competition forces the family firm out of business.
- Poor and undisciplined management forces company into bankruptcy. All shareholders are responsible for their percentage of the debt.

2. **Where Will Control Rest?** Even naïve parents realize the need for those closest to the action being the only people or person in absolute control. Thus, we often see attorneys summoned for the purpose of recapitalizing the business into preferred voting stock and non-voting common stock, or a voting trust put in place for the key shareholder, or simply the clear majority of the stock will rest with the active siblings. Of course, this leaves the minority shareholders with minimal power and control. Minority shareholders normally are given protection of their ownership by having a say in: sale or merger of the company, the issuance of stock to others, borrowing money in excess of a set amount, a major capital expenditure. Legally, minority shareholders can charge active owners of taking more compensation than they are worth and using corporate dollars for personal benefits, thus calling for new management or for sale of the corporation. Also minority shareholders get to vote for members of the company board each year.

3. **The Subtle Messages of a Buy/Sell Agreement.** We encourage families to put an agreement in place that will make it relatively easy for a shareholder to exit ownership of the business. However, some families believe multiple shareholders will be in place forever. In our experience, this is not the case in 99 percent of families. Buy/sell agreements protect the company and its stock, for example, against a shareholder getting divorced and giving an ex-spouse an ownership stake, where the stock must go in case of death, what must happen to the stock in the event of a shareholder declaring personal bankruptcy, and if the stock can be pledged as security for other business investments. Sometimes, a shareholder just wishes to have control of his or her own investments and opts out of the family business. Are they disappointing their deceased parents? Are the active siblings sending a message to the non- active that they do not trust them or their intentions?

   Back to the family with seven children of which four were not active in the business. As time passed, the S corporation only distributed enough cash to the shareholders to cover their individual income taxes due on this investment and nothing else. Three of the four wanted to cash out and control the destiny of their investments and make a reasonable return. However, disadvantage number four springs from this dilemma.

4. **Inability for Shareholders to Cash out of the Family Business.** Most private companies we know lack the financial ability to fund the redemption of stock from one major shareholder let alone three at one time. Funds are typically not available, and most owners will refuse to go to the bank for a loan as it might put the company in a poor financial position. Thus, the minority shareholder wanting to cash out either cannot do it or must follow certain company policy, which normally discusses the conditions and timing of a stock redemption.

We often wonder why parents insist upon bequeathing the future risk of the business and the work and commitment of the active children to the inactive ones. Why would the active child want to build the company bigger and more profitable, and then see a certain percentage of the rewards go to non-active owner siblings or cousins?

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Pitfalls of Family Business

When only 30% of family businesses survive to the second generation and 10% to the third, it begs the question: Why do family businesses die so quickly? Since 92% of businesses are family-owned, they employ a vast majority of the country's workers. The success of family-owned business affects everyone.

There are several unique challenges in running a family business. The most obvious is you can't get away from coworkers at the end of the day because they are eternally tied to your personal life. The inverse of that is equally true. What falls out between you and your sibling at Thanksgiving dinner will ultimately impact your working relationship. It is this very merger of personal and business relationship which led corporations years ago to discourage romantic relationships and nepotism in the staff.

How Many Pieces of the Pie?

Roles and positions in family firms are not always tailored to the particular skill set. Often it is a noncompetitive recruitment initiative that designs the job around the candidate rather than vice versa. On the other hand, the collective passion of the family team can be a driving force if unproductive competitions, communications, and complacencies do not undermine the business.

Founder Charisma

A family business is a unique culture. Often it is tied to the charisma and vision of the founder. He or she creates the bonds of staff to management and the culture that often makes many of the staff feel like part of the family. Unfortunately, more often the not, it is difficult for the founder to let go until well into his 70s or

80s. By then, the entrepreneurial passion of the successor who is usually 50-60 might have significantly waned.

Succession Issues

As everyone watches the next generation grow up, the anticipation and concerns about succession abound. Unlike most public firms that typically replace CEOs five times more than family firms, the founders hold onto the culture and the knowledge, creating a knowing-doing gap with the next generation unless careful attention to progressive succession is cultivated.

Lack of Structure

Family businesses often start as a side job or a hobby that turns into something bigger. Rising to greatness from humble beginnings is one of our favorite American stories; however, it does have its drawbacks.

If you start your family business as a simple hobby, you're not really worrying about your business plan or who will sit on your board of directors, are you? You're just looking to make a few extra bucks. If you manage to succeed and grow, and keep succeeding and growing, you can find yourself operating as a small to mid-level business without normal business structures in place. Lack of structure creates lack of organization, lost profits, miscommunication, overlapping job responsibilities and a myriad of other problems that combine to make it difficult to keep succeeding and growing.

Even if your family business is just a hobby, do yourself a favor and take it seriously. Business plans don't have to be complex documents, and writing even a simple one will give you a foundation for structure in the future, as you need it. If you are in the place of operating a full-fledged business without structure, stop right now and get some structure in place.

Wrong Person in the Job

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Cousin Jimmy needs a job. Your business needs a salesman. Voila! Cousin Jimmy is employed, and you have a salesman on the floor. The only problem is that Cousin Jimmy is the cousin everybody avoids at family reunions because he talks incessantly and somehow never sees the barbecue sauce stain on his shirt. Congratulations...now he's representing your business.

Most cases of wrong-person-in-the-job aren't that horrific (though there are some), but keeping a family member employed, or employed in the wrong position, despite performance... that happens much too often. And it can ruin a good business.

Even though nobody actually believes that phrase, "It's not personal, it's business," you need to act like you believe it. Firing isn't always the solution, of course, though I am in favor of cutting straight to the bottom line. Family members who are performing poorly may just need to be in a different position.

And when it comes time to pass on the reins to the next generation, don't just assume they're ready or able to take on the leadership of the business.

Failure to Plan for Transitions

Second-generation family business owner Ted Hofer says that his father took the need to qualify Ted for his position as CEO very seriously. "My father had a five-year succession plan to prepare me and the company for the transition," says Ted. "I learned every aspect of the company over five years, even spending a summer treating lawns for one of Spring-Green's company-owned locations."

Unclear and/or Unfair Expectations

Of course you'll get to work two hours early for no extra pay! Of course you'll go without a paycheck this week! Of course no one will mind if you show up a little late! Of course it's okay if you borrow the company car for the weekend! Of course the business will pick up your vacation expenses!

It's all in the family, right?

There are blurred lines with family and business. When a family is personally invested in a business, they often are willing to give more than your average employee. But assuming that all family members will happily sacrifice for the business is a bad idea. So is assuming that because you're a family member you can use business assets anytime you'd like. "It's also good to set boundaries," says Amanda Haddaway, who works at family-owned Folcomer Equipment Company with her dad and stepmom. The lines may be blurred, but make sure the lines are there.

Allowing Family Ties to Undermine Business Roles

Family structure is important. But if you have power struggles because older brother Tom doesn't want younger brother James to be his manager, you've got a case of family ties interfering with business. When family structure keeps the right people in the wrong jobs, or has everybody distracted over personal relationships when they should be focused on productivity, you've got a problem.

4.17 Improving Family Business Performance

Some family owned businesses (FOBs) have a long-term history of consistent profitability. Others, however, have a similarly long-term history of weak performance. The obvious question is why.

There are a small number of salient factors, which are critical.

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The Concept of "Core Business Values"

The management of every family business requires that decisions be made about a myriad of issues. The totality of these decisions becomes, in effect, the family's core business values. Of particular importance are the core values regarding the training of family members entering the business; business objectives; finances; and the accountability of family members? Depending on the circumstances, the family may adopt these values consciously or unconsciously, or for that matter, willingly or unwillingly. Regardless, the functionality of the FOB's core business values is crucial to its performance, both short and long term.

Critical Core Business Values Impacting Family Business Performance

Given that every family business has its own dynamics, it would be impossible to identify a list of definitive core business values. Nonetheless, four dysfunctional core values tend to be particularly common to under- performing companies. Specifically, these involve the training of the successor generation, the family's outlook on the future, accountability and finances.

Training

The need for sound training of successor generation(s) is often overlooked on a regular basis in FOBs. In part, this is because of a common belief that tertiary education and a little bit of exposure to the business should be enough to prepare an in-coming family member adequately.

In particular, the benefit of substantial exposure to every critical aspect of the business is not recognized. Additionally, there is generally no formal effort to continue with outside training, be it through additional course work, workshops, industry based programs, etc. Particularly in today's fast moving and competitive environment, the need for consistent training experiences is vital.

Future Outlook

Poorly performing businesses have tended to have little real concern about the future, and have failed to recognize the necessity of preparing for the environmental changes that are inevitable.

FOBs need to acknowledge that the future will be different, and so the family must consistently make efforts to plan for and manage change pro-actively. The failure to do so has led to the demise of many FOBs that had been very successful at one time.

Accountability

The simple act of establishing performance criteria and periodically evaluating performance relative to those criteria is a relatively simple task. At the same time, it is one of the most difficult tasks the FOB faces. Even more difficult is the issue of dealing with poor performers. In today's highly challenging environment, however, it is virtually impossible to compete effectively over an extended period of time without it.

Finances

Many FOBs adopt core values around finances that are unsustainable owing to an insufficient understanding of the need for and benefit of retaining cash within the business. As a result, these FOBs tend to be chronically cash poor, and subsequently under-perform. Further, these companies are highly vulnerable to business downturns and other types of setbacks.

Other Critical Core Values

Many other core values can also often have a critical impact on performance of family businesses. In particular, these values tend to involve decision-making processes, internal communications, methods of conflict resolution, methods of compensation and the formality of the FOB's operating procedures.

4.18 Summary

Notes

Entrepreneurship among women can be eyed as a tool for Employment and Income Generation. The development of women entrepreneurs is in line with the overall entrepreneurship development in the country. 'The Women Entrepreneurship' in Modern India is there to stay. Women are active in a variety of economic areas, which they often combine, ranging from wage labour, subsistence farming and fishing to the informal sector. In some countries, women take on more unpaid work, such as the care of children and those who are ill or elderly, compensating for lost household income, particularly when public services are not available. Entrepreneurship among women is an area which can help in Employment Generation and Income Generation among Women. In the household, women are expected to carry out the domestic work, childcare and other tasks and their economic opportunities are restricted. Traditionally in our society, more importance was given to educating the male child as compared to the female child. Women entrepreneurs also find it difficult to capture the market and make their products popular because of the resistance posed by the society. A nation can only be developed if its women are given ample opportunities. Developing entrepreneurship among women will be right approach for women empowerment. Empowerment of women has five components: women's sense of self-worth; their right to have and to determine choices; their right to have access to opportunities and resource; their right to have the power to control their own lives, both within and outside the home; and their ability to influence the direction of social change to create a more just social and economic order, nationally and internationally. The policies and programmes of the government motivate, assist and guide entrepreneurial development of women.

Nowadays self-help groups (SHGs) are playing a very important role to motivate women in entrepreneurship through micro-finance. SHGs are not only increasing in rural women entrepreneurship but also in urban women entrepreneurship. Though at the initial stage women entrepreneurship developed only at urban areas, lately it has extended its wings to rural areas. Grassroots entrepreneurs are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems – in our case, to expand liberty. The idea is also known as social entrepreneurship. Unlike business entrepreneurs who are motivated by profits, grassroots entrepreneurs are motivated to improve society. Like business entrepreneurs, grassroots entrepreneurs see and act upon what others miss: opportunities to improve system, create solutions and invent new approaches that create social value. Each group selects one animator and two representatives from among themselves. The animator is responsible for providing leadership to the group and to maintain the various registers. The representatives assist the animator and maintain the bank accounts of the group.

Individually, a poor is not only weak in socio-economic term but also lacks access to the knowledge and information, which are the most important components of today's development process. Recent trends in India and even at global level women are far more superior to men in various aspects of development. Only problem is that so far the society has given little chance to women to enter into the fields of various economic activities. Economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. Small loans created by SHGs seem to positively affect poverty by creating entrepreneurship and greater self-reliance among the poor. Becoming a member in SHG ensures women to become socially and politically empowered.

The concept of SHG generally rejuvenate the rural women as it helps in breaking the vicious circle of poverty among women, thereby to become economically viable. Self Help Groups (SHGs) have been successful in empowering rural women through entrepreneurial activities.

Family enterprises, irrespective of scale of operation, legal form, industrial activity, and level of socio- political and market development have been the backbone of corporate life, across nations, remaining a cornerstone of socio economic development. Historically, family firms are, for the most part, enduring institutions. Their importance parallels socio-cultural advances, technological advances, and the so called new market order associated with globalization.

Family firms are said to be the originating form of any business activity (Wakefield, 1995), dominating the economic landscape of most major economies in the world. Two thirds of all enterprises worldwide are said to be family-owned and/or managed (Gersick et al., 1997). In Germany, between 60% and 90% of all firms can be considered as family firms. The life span of family firms is however often relatively short, as only a limited number survives the transition to the second generation, and hardly one-third even into the third.

4.19 Glossary

- *Bargaining Power:* Bargaining power is the relative ability of parties in a situation to exert influence over each other.
- *Employment:* The act of employing or using or the state of being employed. *Empowerment:* To equip or supply someone with an ability to execute his or her powers. *Environment:* The setting or conditions in which a particular activity is carried on. *Ideology:* The ideas and manner of thinking of a group, social class, or individual.
- *Militate:* It is a circumstance of being powerful or conclusive factor in preventing.
- *Paralegal:* A person trained in subsidiary legal matters but not fully qualified as a lawyer.
- *Grassroots Entrepreneurs:* They are civic activists who take the initiative to create campaigns or other organizational ventures to tackle social problems.
- *Micro Credit:* An extremely small loan given to impoverished people to help them become self-employed.
- *Mission:* A sentence describing a company's function, markets and competitive advantages;
- a short written statement of your business goals and philosophies.
- *Non-Governmental Organization (NGO):* It is a voluntary organization established to undertake social intermediation.
- *Self-Help Group (SHG):* A self-help group is a village-based financial intermediary usually composed of 10–20 local women.
- *Self-reliance:* Self-reliance is the ability to do things and make decisions by yourself, without needing other people to help you.
- *Vanguard:* A group of people leading the way in new developments or ideas.

4.20 Review Questions

1. Discuss the advancements made by women of modern India.
2. What is the scope of entrepreneurship among women? Discuss in detail.
3. What are the components of working environment in which women entrepreneurs operate?
4. Discuss the women's ability to bargain in the labor market.
5. Why do women entrepreneurs face the problem of finance and working capital?
6. Discuss the various socio-cultural barriers in the path of women entrepreneurs.
7. What measures would you suggest to improve the status of women entrepreneurs?

Notes

8. How can women be empowered through entrepreneurship?
9. Discuss the challenges faced by two women entrepreneurs of India of your choice.
10. Explain the components of women empowerment.
11. Define grassroots entrepreneurs.
12. Differentiate grassroots entrepreneurs from their business counterparts.
13. What are the basic characteristics of grassroots entrepreneurs?
14. What do you mean by SHGs?
15. Why there is a need for SHGs?
16. Explain microfinance as a tool for grassroots entrepreneurship.
17. How can grassroots entrepreneurship be achieved through SHGs?
18. What role does NGOs play in building grassroots entrepreneurship?
19. How does SHGs pool their resources? Advance your knowledge through internet and explain in detail.
20. Explain the linkage between SHGs and literacy programmes run by government.
21. What is the main problem to the failure of many family businesses?
22. What will you suggest for a successful transfer of a family business?
23. What family business owners should do in order to make the business function well?
24. Summarize what a family business manager should do in planning his / her succession management.
25. Explain the 3 circle model of a family business.
26. Identify the requirements needed to save a family business.
27. Define family business and explain various types of family business.
28. Discuss various disadvantages and pitfalls of Indian family business with examples.
29. Discuss the importance of succession planning in a family business.
30. Identify the points to be taken into consideration while developing a succession plan in a family business.

4.21 Further Readings

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UNIT-5

FORMS OF BUSINESS OWNERSHIP AND PROJECT IDENTIFICATION

Notes

(Structure)

5.1 Learning Objectives

Notes

After studying the chapter, students will be able to:

- Discuss the Method of Procedures to Start and Expand One's Own Business
- Explain the Sole Proprietorship & Partnership
- Describe the Joint Stock Company
- Discuss the Choice of a Suit able Form of Business Organisation
- Discuss the Project Formulation & Project Report
- Explain the Planning Commission's Guidelines For Formulating A Project Report
- Describe the Demand Analysis and Market Potential Measurement.

5.2 Introduction

With the enlargement of the scale of business operations, it became difficult for a sole proprietorship or partnership firm to cope with the problems of finding additional resources and arranging for more specialised management. In addition to this, the unlimited liability of the sole trader and partners also hindered the" business in several ways. Apart from these limitations, the introduction of advanced technologies, economies of large-scale production and other developments in the field of industry and commerce forced businessmen to think "in terms of bigger forms of organisation. The sole proprietorship and partnership failed to face the challenge posed by these developments. As a result, the present from the joint stock companies emerged. It was found the most suitable form of organisation for large scale production.

The effectiveness of the questionnaire as a device for eliciting the desired information depends on its length, the types of questions and the wording of questions. Developing the questionnaire requires a thorough understanding of the product/service and its usage, imagination, insights into human behaviour, and familiarity with the tools of descriptive and inferential statistics to be used later for analysis. It also requires knowledge of psychological scaling techniques if the same are employed for obtaining information relating to attitudes, motivations, and psychological traits. Industry and trade market surveys, in comparison to consumer surveys, generally involve more technical and specialised questions.

The Industrial Policy Statement, 1980 reiterated Government's commitment to balanced regional development of the country and emphasised the crucial role of industrialisation and the importance of dispersal of industries. As per the Policy Statement, the Government has decided to encourage dispersal of industry and setting up of units in industrially-backward areas, and to offer special concessions and facilities for this purpose which will be growth and performance-oriented. The Industrial Policy aimed at correction of regional imbalances through a preferential development of industrially backward regions.

A project involves employment of scarce resources. Hence, the entrepreneur has to appraise various projects before allocating the scarce resources for a project. First a project has to be appraised from economic aspects. The economic aspects of appraisal include production of goods or services, generation of additional revenue, employment of labour, better rewards for the owners of capital, etc. A good organisation is required for the implementation of the project. An entrepreneur usually has three types of organisation to fall upon: sole trade proprietorship, partnership and joint stock companies. The type of organisation suitable for the project has to be setup. The financial institutions have to take special care with regard to the managerial aspects of the project. The management should be competent and efficient, otherwise a good project may fail. Technical appraisal includes the location and site of the project the technology used, technical collaboration if any, capacity utilization, plant layout, project design etc. The financial appraisal should ensure that the projects has a sound financial base.

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5.3 Method of Procedures to Start and Expand One's Own Business

Choice of a proper form of organisation is crucial for the success of a business enterprise. Every entrepreneur has to decide, at the outset, the type of ownership organisation in which his enterprise is to be run. Choice of form of business organisation is crucial because it determines the risk, responsibility and control of the entrepreneur as well as the division of profits. It is a long- term decision because the form of organisation cannot be changed frequently. The right form of organisation can be help the enterprise not only through initial success but in later growth too. Therefore, the form of ownership organisation should be selected after due care and thought. A business enterprise can be owned and organised in several forms. These forms of business organisation are as under:

(a) Sole Proprietorship

(b) Partnership firm

(c) Joint Stock Company and

(d) Cooperative society

Every form has its own merits and demerits. Therefore, a businessman is faced with the problem of selecting a suitable form of ownership for his business. This problem arises not only at the time of launching a new business enterprise bul also at the time of expansion or growth in the size of business.

5.4 Sole Proprietorship

Sole proprietorship (also, called sole trade organisation) is the oldest form of business ownership in India. In a sole proprietorship, the enterprise is owned and controlled by one person. He is master of his show. He sows, reaps and harvests the output of this effort. He manages the business on his own. If necessary, he may take the help of his family members, relatives and employ some employees.

Sole proprietorship is the simple and easiest to form. It does not require legal recognition and attendant formalities. This form is the most popular form in India due to the distinct advantages it offers. William R. Basset opines that "The one-man control is the best in the world if that man is big enough to manage everything".

The important features of a sole proprietorship are:

(i) Sole ownership

(ii) One man control

(iii) Unlimited risk

(iv) Undivided risk

(v) No separate entity of the firm

(vi) No Government regulation

Advantages of Sole Proprietorship

1. **Easy and Simple Formation:** A sole trading concern can be formed without any difficulty. Unlike other forms, no legal formalities are necessary for its formation. It can be started and can also be closed according to wishes and whims of the sole trader. Thus, there are no legal formalities for expansion, contraction or dissolution of the business enterprise.
2. **Direct and Exclusive Control:** The proprietor has full authority to manage the business. He is not accountable to anyone and nobody interferes in his working. Thus, there is no problem of co-ordination; he is in a better position to maintain good relations with all his employees, if any.

Notes

3. **Promptness in Decision-making:** The sole trader is the sole dictator of the business and relatively free from outside interference. He is capable of taking prompt actin so necessary for business success.
4. **Direct Motivation and Incentive to Work:** The-owner enjoys the entire profits of the concern alone. The existence of the direct relationship between the effort and the reward serves as a powerful incentive and makes the sole trader work very hard and manage his concern most efficiently.
5. **Maintenance of Secrecy:** In any business enterprise, maintenance of business secrecy is an important factor; and it is in this individual entrepreneurial organisation that the sole trader will get this object fulfilled as there is no need to give publicity to accounts and affairs of his business.
6. **Personal Touch with Customers:** As the enterprise is generally small and most often the proprietor himself manages it, he can develop close personal relations with his customers. This promotes customer satisfaction which, subsequently, adds to goodwill of the concern.
7. **Economy in Management:** The business of sole proprietorship is mostly supervised, managed and controlled by the sole proprietor alone or with the help of his relatives and friends and sometimes by one or two paid assistānt; hence the costs of management are comparatively lower.
8. **Minimum Government Regulation:** The operations of a sole proprietor are regulated by Government and law to the minimum extent. He of course, has to comply with tax and Labour laws, but otherwise he is free from interference. There are no legal formalities in formation, expansion or dissolution of the business enterprise.
9. **Socially Significant:** Sole proprietorship is important from social point of view also. It is a means for earning livelihood independently.

The owner is his own master. It ensures diffusion of business ownership and, thus, concentration of wealth and power in a few hands is avoided. It further, helps in the development entrepreneurial qualities such as self-reliance, self confidence, responsibility, tact and initiative etc. in the individual entrepreneurs.

Disadvantages of Sole Proprietorship

1. **Limited Financial Resources:** A single individual normally does not posses enough capital. His borrowing capacity is also limited. Therefore, a soil proprietorship firm suffers from lack of financial resources. Consequently, it has to confine its activities within a limited range.
2. **Limited Managerial Ability:** The limitation of managerial ability is a glaring as that of capital. An individual, howsoever, capable and qualified may be cannot manage all functions of the business. He is not supposed to posses knowledge of all the functional areas of the business. Moreover, because of the small size of the business and limited financial resources available to him, he may not be in a position to appoint expert managers. Thus, in the modem competitive world of business where different aspects are managed by experts, sole proprietor's concern likely to suffer from stagnation in the absence required managerial ability.
3. **Unlimited Liability:** The unlimited liability of the single proprietor is a great disadvantage to him; because business debts run against his entire property and not merely against the amount invested in the business. This discourages the risk-taking instinct of the entrepreneur.
4. **Uncertainty of continuity:** Continuity of the sole proprietor's business is difficult to maintain. When the proprietor dies there is no guarantee for the continuity of the business; because there is no legal obligation to continue the same concern. The legal heir of the proprietor may

lack requisite qualities or may not have any liking for the same business. With the result, the business may come to an end. There is also no legal obligation that once a business is started, it must be continued under any circumstances. Thus, the continuity of the business solely depends on the sole proprietor and his legal heir.

Notes

5. **Diseconomies of Small Size:** A small scale firm cannot economies in purchase, production and marketing. In a sole trader's concern, overhead cost is also more. Thus, a sole proprietorship firm suffers from diseconomies of small scale and is not in a position to compete with the large-scale organisations having economies of large-scale.
6. **Limited Growth:** Growth is a normal rule of life. A business firm is bound to grow in size; as it is a living organism. Practically, due to the limitations of capital and managerial ability as discussed above, the growth of the sole trader's business is affected adversely; it is never in a position to bloom fully.

Suitability: The foregoing description reveals that sole proprietorship or one man control is the best in the world if that man is big enough to manage everything. But such a person does not exist. Therefore, sole proprietorship is suitable in the following cases:

(i) Where small amount of capital is required, e.g., sweet shop$, bakery, newsstand, etc.

(ii) Where quick decisions are very important, e.g., share brokers, bullion dealers, etc.

(iii) Where limited risk is involved, e.g., automobile repair shop, confectionery, small retail store, etc.

(iv) Where personal attention to individual 'tastes and fashions of customers is required, e.g., beauty parlour, tailoring shops, lawyers, painters, etc.

(v) Where the demand is local, seasonal or temporary, e.g., retail trade, laundry, fruits sellers, etc.

(vi) Where fashions change quickly, e.g., artistic furniture, etc.

(vii) Where the operation is simple and does not require skilled management.

Thus, sole proprietorship is a common form of organisation in retail trade, professional firms, household and personal services. This form of organisation is quite popular in our country. It accounts for the largest number of business establishments in India, in spite of its limitations.

5.5 Partnership

The need for partnership firm form of organisation arose from the limitations of sole proprietorship. With the expansion of business, it became necessary for a group of persons to join hands together and supply necessary capital and skill. A person may possess exceptional business ability but no capital; he can have a financing partner. A financier may need a managerial expert as well as a technical expert and all of them may combine to set up a business with common ownership and management. Thus, partnership organisation has grown out of necessity to arrange more capital; provide better management and control, to take advantage of high degree of specialisation and division of labour, and to share the risks.

Section 4 of the Indian Partnership Act of 1932 defines partnership as "the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all". Owners of the partnership business are individually called "partners" and collectively called a "firm". The name under which the business is carried on is known as "firm name". The terms and conditions of partnership are contained in the partnership agreement known as "Partnership Deed".

Main Features: Based on the above discussion, we can now list the main features of partnership form of business ownership/organisation in a more orderly manner as follows:

1. **More Persons:** As against sole proprietorship, there should be at least two persons subject to a maximum often persons for banking business and twenty for non-banking business to form a partnership firm.
2. **Profit and Loss Sharing:** There is an agreement among the partners to share the profits earned and losses incurred in partnership business.
3. **Contractual Relationship:** Partnership is formed by an agreement – oral or written – among the partners.
4. **Existence of Lawful Business:** Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership.
5. **Utmost Good Faith and Honesty:** A partnership business solely rests on utmost good faith and trust among the partners.
6. **Unlimited Liability:** Like sole proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners private assets will also be used for the purpose.
7. **Restrictions on Transfer of Share:** No partner can transfer his share to any outside person without seeking the consent of all other partners.
8. **Principal-Agent Relationship:** The partnership firm may be carried on by all partners or any of them acting for all. While dealing with firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners.

Advantages of Partnership

1. **Easy Formation:** Formation of partnership is easier and no legal formalities are to be observed to establish it. At the same time, unlike a company not much of expenses are incurred for its formation. However, as compared to sole trader's concern, it may involve certain difficulties, specially in selection and organisation of partners, etc.
2. **Larger Financial Resources:** In a partnership, since several persons pool their financial resources into a common business, the amount of capital accumulation becomes much higher than what can be contributed by one person in sole trader's concern. The scale of operations can be enlarged to reap the economies of scale. There is always scope for the introduction of new partners to augment resources.
3. **Flexibility:** It's a highly flexible organisation. Changes can be introduced easily. The necessary additional capital can be raised; new partners can be introduced, the place and object of the firm can be changed. Business of the firm can also be expanded or contracted according the requirements of the business.
4. **Combined Abilities and Balanced Judgement:** In a partner ship firm, better management of the business is ensured because capital and brain of two or more persons are pooled. Combined abilities and balanced judgement produce appreciable results. Two heads are better than one is an old saying.
5. **Direct Motivation:** Since the partners themselves manage the business, they are likely to manage it with great care, caution and interest. Moreover, partnerships provides a fair correlation between rewards and efforts on the part of owners, and as such partners are motivated to apply the best of their energy and capacity for the success of the business.
6. **Division of Risks:** In sole proprietorship, the risks of business are to be shouldered by one person alone; but in partnership, the risks are to be shared by all the partners. Thus, partnership is more useful for risky business.

Notes

7. **Business Secrecy:** The annual accounts and reports of a partnership firm do not require circulation and publicity and, therefore, secrecy can be maintained about the business.
8. **Protection of Minority Interest:** The Partnership Act provides equal rights and powers for all the partners irrespective of their capital contributions. Every partner has a right to participate in the management of the business. All importanl decisions are to be taken by the consent of all the partners. If a majority decision is enforced on minority, affected partners can get the business dissolved.
9. **Encouragement of Mutual Trust and Interdependence:** Each partner is an agent for the others. Therefore, all the partners act with utmost mutual trust. They also develop a sense of interdependence and team spirit. At the same time each partner develops his individuality through his responsibility for others and the firm as a whole.
10. **Easy Dissolution:** A partnership firm can easily be .dissolved. It is a kind of voluntary association for carrying on business operations. Therefore, it can be dissolved by the partners merely by expressing to each other their intention to do so. In the case of a partnership-at-will, it can be dissolved by giving 14 days notice to other partners.

Disadvantages of Partnership

1. **Unlimited Liability:** The partners, like a sole proprietor but unlike shareholders of a joint stock company, may be personally held liable for the debts of the firm. Their private property also remains at stake. Due to the dangers associated with unlimited liability, partners are over- cautious and play safe. This restricts the expansion and growth of the business.
2. **Limited resources:** There is an upper limit to the number of partners in a partnership firm - 20 in a general business and 10 in a baking business. Due to this, inspite of the pooling of the resources by all the partners, it becomes difficult for a partnership to manage the increasing requirements of capital and managerial skills of expanding business. This limitation limits the growth of business beyond ascertain size.
3. **Instability:** A partnership firm suffers form the uncertainty of duration; because it can be dissolved at the time of death, lunacy or insolvency of a partner. Sometimes petty quarrels among the partners may also bring the partnership to an end. The discontinuity of the business is not only inconvenient to the consumers and workers but is also a social loss.
4. **Non-Transferability of Interest:** Partners cannot transfer their interests in the partnership firm to outsiders without the consent of all other partners. This non-transferability is a drawback of the partnership firm and dissuades many persons from investment in such a firm. On the other hand, shares of a joint stock company are easily transferable and, thus, provide liquidity to the investment.
5. **Lack of Public Confidence:** Since there is no publicity of the working of a partnership through its published periodical accounts and there is absence of legal control over it, the general public may not have full confidence in them.
6. **Risk of Implied Authority:** A partner, being an agent of the firm and his co-partners, can make deals and contracts that would be binding on other partners. Therefore, when a partner is negligent, or commits a wrong, or in guilty of a fraud, within the scope of his authority, other partners are equally liable financially without any limit. Thus, the honest and efficient partner may have to pay the penalty for follies and vices of other partners.
7. **Lack of Centralised Authority:** The power of management is vested in all the partners; there is absence of a supreme and central authority. Consequently, many problems crop up, particularly when there is absence" of mutual understanding and co-operation. Constant opposites and disagreements on the part of partners hamper the growth of the partnership business at every stage and, ultimately, may even put an end to the existence

of the partnership, after a short span of life.

Notes

Partnership Deed

By now, you have learnt that partnership is an agreement between persons to carry on a business. The agreement entered into between partners may be either oral or written. But, it is always desirable to have a written agreement so as to avoid misunderstandings and unnecessary litigations in future. When the agreement is in written from, it is called 'Partnership Deed'. It must be duly signed by the partners, stamped and registered. Any alteration in partnership deed can be made with the mutual consent of all the partners.

Although it is left to the choice of the partners of the firm to decide themselves as to what should be mentioned in their partnership deed, yet a partnership deed generally contains the following:

1. Name of the firm
2. Nature of the business
3. Names of the partners
4. Place of the business
5. Amount of capital to be contributed by each partner
6. Profit sharing ratio between the partners.
7. Loans and advances from the partners and the rate of interest thereon.
8. Drawings allowed to the partners and the rate of interest thereon.
9. Amount of salary and commission, if any payable to the partners.
10. Duties, powers and obligations of partners.
11. Maintenance of accounts and arrangement for their audit.
12. Mode of valuation of goodwill in the event of admission, retirement and death of a partner.
13. Settlement of accounts in the case of dissolution of the firm.
14. Arbitration in case of disputes among the partners.
15. Arrangements in case partner becomes involvement.

Registration of the Firm

Under the Indian Partnership Act, 1932, the registration of the firm is not compulsory. An unregistered firm suffers from certain limitations, hence the registration of the firm is desirable. Registration can be done at any time. The procedure for registration is as follows:

The firm will have to apply to the Registrar of Firms of the respective State Government in a prescribed application form. The form should be duly signed by all the partners. The application form should contain the following information:

1. The firm-name.
2. The name of business place.
3. Names of other places, if any, where the firm is carrying on its business.
4. Date of commencement of business.
5. Date when each partner joined the firm.
6. Full names and permanent addresses of all the partners.
7. The duration of the firm, if any.

When the Registrar of Firms is satisfied that all formalities relating to registration have been fully complied with, he makes an entry in Register of Firms. Thus, the firm is considered to be registered. The Register of Firm remains open for inspection on payment of prescribed fee for the purpose.

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Dissolution of Firm

There is a difference between the dissolution of partnership and dissolution of firm. Dissolution of partnership occurs when a partner ceases to be associated with the business, whereas dissolution of firm is the winding up the business. In other words, in case of dissolution of partnership, the business of the firm does not come to an end but there is a new agreement between the remaining partners. But in case of dissolution of firm, the business of the firm is closed up. In brief, dissolution of partnership does not imply the dissolution of firm. But, dissolution of firm implies dissolution of partnership also. Following are the various ways in which a firm may be dissolved:

1. **Dissolution by Agreement:** The partnership firm may be dissolved in accordance with a contract already made between the partners.
2. **Compulsory Dissolution:** A firm stands compulsorily dissolved under the following circumstances:
   (a) By the adjudication of all the patterns or of all the partners but one as insolvent, or
   (b) By the happening, of any such event that makes the business unlawful.
3. **Dissolution due to Contingencies:** A firm stands dissolved on the happening of the any of the following contingencies:
   (a) On expiry of partnership period, if constituted for a fixed period.
   (b) On completion of the firm's venture for which the firm was formed.
   (c) On the death of a partner.
   (d) On the adjudiction of a partner as an insolvent.
4. **Dissolution by Court:** Under any of the following cases, a court may order the dissolution of a firm:
   (a) Any partner has become of unsound mind.
   (b) Any partner has become permanently incapable of performing his duties as a partner.
   (c) A partner's misconduct is likely to affect prejudicially the business of the firm.
   (d) A partner's misconduct is likely to affect prejudicially the business of the firm.
   (e) A partner transfers his interest in the firm, but unauthorisedly, to a third party.
   (f) The business of the firm can be carried on at loss only.
   (g) It is just and equitable, on the basis of any other reasonable ground, that the firm should be dissolved.

Settlement of Accounts on Dissolution

Settlement of accounts means closure of all accounts in the-books of the firm as the firm's business no longer exists. According to Section 48 of the Indian Partnership Act, 1932, the procedure for the settlement of accounts after the dissolution of the firm is a follows:

The assets of the firm are disposed of and the amounts so realised are applied in the following manner:

(i) Payment of debts due to the third parties.
(ii) Rateable payment of loans and advances made by the partners to the firm
(iii) Payment of partners' capital
(iv) Payment of surplus, if any, to the partners in their profit sharing ratio.

The losses of the firm on dissolution have to be made up:

(i) First out of accumulated pass profits.

(ii) Then, out of capitals of partners.

(iii) Thereafter, out of contributions from the private estates of the partners in their profit sharing ratios.

Notes

It is important to mention that the private property of the partner is to be used first to pay his private debts and only the surplus, if any, can be used to pay firms liabilities. Similarly, firm's assets are first used to pay firm's liabilities. Only surplus can be used to pay the partner's private liabilities.

Suitability: The foregoing description reveals that partnership form of organisation is appropriate for medium-sized business that requires limited capital, pooling of skill and Judgement and moderate risks, like small scale industries, wholesale and retail trade, and small service concerns like transport agencies, real estate brokers, professional firms like chartered accountants, doctor's clinic or nursing homes, attorneys, etc.

5.6 Joint Stock Company

With the enlargement of the scale of business operations, it became difficult for a sole proprietorship or partnership firm to cope with the problems of finding additional resources and arranging for more specialised management. In addition to this, the unlimited liability of the sole trader and partners also hindered the" business in several ways. Apart from these limitations, the introduction of advanced technologies, economies of large-scale production and other developments in the field of industry and commerce forced businessmen to think "in terms of bigger forms of organisation. The sole proprietorship and partnership failed to face the challenge posed by these developments. As a result, the present from the joint stock companies emerged. It was found the most suitable form of organisation for large scale production. A joint stock company not only helped in overcoming the limitations of sole proprietorship and partnership but also placed huge amount of capital in the hands of entrepreneur and that too with limited lability. It provided an opportunity for every person, rich or poor, to contribute to its capital.

A company may be defined as a voluntary association of persons, recognised by law, having a distinctive name, a common seal formed to carry on, business for profit with- capital divisible into transferable shares, limited liability, a corporate body and perpetual succession.

Salient Features of a Company

The distinctive characteristics of a company are as follows:

1. **Separate legal entity:** A company has an existing entirely distinct from and independent of its members. It can own property and enter into contracts in its own name. It can sue and be sued in its own name. There can be contracts and suits between a company and the individual members who compose it. The assets and liabilities of the company are not the assets and liabilities of the individual numbers and *vice versa*. No member can directly claim any ownership right in the assets of the company,
2. **Artificial legal person:** A company is an artificial person created by law and existing only in contemplation of law. It is intangible and invisible having no body and no soul. It is an artificial person because it does not come into existence through natural birth and it does not possess the physical attributes of a natural person. Like a natural person, it has rights and obligations in terms of law. But it cannot do those acts which only a natural person can do, e.g., taking an oath in person, enjoying married life, going to jail, practising profession, etc. A company is not a citizen an it enjoys no franchise or other fundamental rights.
3. **Perpetual succession:** A company enjoy continuous or uninterrupted existence and its life is not affected by the death, insolvency, lunacy, etc. of its members, or directors. Members

may come and go but the company survives so long as it is not wound up. Being a creature of law, a company can be dissolved only through the legal process of winding up. It is like a river which retains its identity though the parts composing it continuously change.

Notes

4. **Limited Liability:** Liability of the members of a limited company is limited to the value of the shares subscribed to or to the amount of a guarantee given by them. Unlimited companies are an exception rather than the general rule. In a limited company, members cannot be asked to pay anything more than what is due or unpaid on the shares held by them even if the assets of the company are insufficient to satisfy in full the claims of its creditors.
5. **Common Seal:** A company being an artificial person cannot sign for itself. Therefore, the law provides for the use of common seal as a substitute for its signature. The common seal with the name of the company engraved on it serves as a token of the company's approval of documents. Any document bearing the common seal of the company and duly witnessed (signed) by at least two directors is legally binding on the company.
6. **Transferability of shares:** The shares of a public limited company are freely transferable. They can be purchased and sold through the stock exchange. Every member is free to transfer his shares to anyone without the consent of other members.
7. **Separation of ownership and management:** The number of members in a public company is generally very large so that all of them or most of them cannot take active part in the day-to-day management of the company. Therefore, they elect their representatives, known as directors, to manage the company on their behalf. Representative control is thus an important feature of a company.
8. **Incorporated association of persons:** A company is an incorporated or registered association of persons. One person cannot constitute a company under the law. In a public company, at least seven persons and in a private company atleast two persons are required.

Private and Public Companies

(i) Private Company: It is company which by its Articles of Association:

(a) restricts the right of its members to transfer shares, if any;

(b) limits the number of its members to SO, excluding members who are or were in the employment of the company; and

(c) prohibits any invitation to the public. to subscribe for any shares in, or debentures of, .the company.

The minimum number of members required to form a private company is two. Such a company must use the word 'private' in its name. A private company enjoys special privileges and exemptions under the Companies Act.

A public company is that company which is not a private company.

Table 5.1. Distinction between Private and Public Companies

Point of Distinction		Private Company	Public Company
1.	Number of Members	Minimum - 2 Maximum - 50	Minimum - 7 Maximum - No limit
2.	Name	The name must include the word 'Private Limited'.	The name must include the word "Limited".
3.	Number of directors	Minimum - 2	Minimum - 3

Notes

4.	Articles of Association	Must prepare its own Articles of Association	May adopt Table A as given the Companies Act.
5.	Public Subscription	Cannot invite public to subscribe to its shares and debentures.	Generally invites public to subscribe to its shares and debentures.
6.	Prospectus	Need not issue and file a prospectus	Must issue and file a prospectus or a statement in lieu of prospectus.
7.	Allotment of	No restrictions on allotment of shares. No binding on further issue of shares.	Cannot allot shares without raising minimum subscription and without complying with other legal formalities. Further issue of shares must in the first instance be offered to the existing members.
8.	Commencement of business	Can commence its business immediately after getting the Certificate of Incorporation	Can commence business only after getting the Certificate of Commencement of Business.
9.	Transfer of shares	Restrictions on transfer of shares	No restrictions on transfer of shares.
10.	Share Warrants	Cannot issue share warrants	Can issue share warrants per bearer.
11.	Statutory Meeting and report	Not required to hold statutory meeting or file a statutory report	Must hold a statutory meeting and file a statutory report.
12.	Deferred Shares	Can issue deferred shares with disproportionate voting rights.	Cannot issue such shares.
13.	Directors	(a) No Qualification shares	(a) Qualification shares prescribed
		(b) Directors need not retire by rotation every year.	(b) One third of the two thirds of directors must retire by rotation every year.
		(c) No restriction on the appointment and reappointment of managing/whole time directors.	(c) Appointment and reappointment requires Approval of the Central Government.
		(d) No limit on number of directorships.	(d) An individual cannot be a director of more than 20 companies.
		(e) Directors can borrow from their company.	(e) Directors cannot borrow without the approval of Central Government.
		(f) A director can occupy any office or profit.	(f) Special resolution required for this purpose.

Notes

		(g) Interested director can vote in the board meeting.	(g) Interested director cannot Vote in the meeting.
14.	Managerial Remuneration	No restriction on directors' remuneration	Total annual remuneration must not exceed 11 per cent of the net profits. In case of insufficiency of profits, the maximum limit is ₹ 50,000 per annum.
15.	Index of Members	Need not keep at separate index of members.	If membership exceeds 50, a separate index of members is required

Suitability of Private Company

The above description reveals that a private company is a compromise between partnership and public company. To some extent, it combines the advantages of both. It enjoys the advantages of separate legal entity, continuity, limited liability and business secrecy. At the same time, it is free from excessive Government regulation and progressive income tax liability.

For these reasons, a private company is very suitable for organising a medium-sized business involving considerable risk of loss or uncertainty of profit. Wholesale trade, large scale retailing, e.g., departmental stores, chain stores, etc., and transportation services are examples of such business. Private company is also preferred by those who wish to take the advantage of limited liability but at the same time desire to keep control over the business within a limited circle of friends and relatives and want to maintain the privacy of their business. A family can maintain secrecy of business, avoid the risk of unlimited liability and avail of the facility or ease of partnership. Due to the small number of members there can be high degree of privacy and there is comparative freedom from legal requirements. Private company organisation is also appropriate in case of business of a speculative nature, e.g., hire purchase trading, stock-brokers, underwriting firms, etc. Another reason for the popularity of private company organisation is several exemptions and privileges granted by law.

Privileges of a Private Company

In spite of certain restrictions imposed on a private company, it enjoys certain privileges under the Companies Act. That is why a substantial number of entrepreneurs prefer to form a private company. Following are the important privileges granted to a private company:

1. For forming a private company, only two members are required.
2. A private Company is required to have only two directors.
3. Such company is no required to file prospectus or a statement in lieu of prospects with the Registrar of Companies.
4. It can commence its business immediately after incorporation.
5. It is also not required to hold a statutory meeting nor it is required to file a statutory report.
6. The directors of a private company are not required to give their consent to act or to take up their qualification shares prior to their appointment.
7. A non-member cannot inspect the copies of the Profit Loss A/c filed with the Registrar of Companies.
8. Limit on payment of maximum managerial remuneration does not apply to a private company.

9. Restrictions on appointment and reappointment of managing director does not apply to such company.
10. A private company is not required to maintain an index of its membership.

Notes

Merits of Company Organisation

The company form of business ownership has become very popular in modem business on account of its several advantages:

1. **Limited liability:** Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the company form of ownership.
2. **Large financial resources:** Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability, transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.
3. **Continuity:** A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to mature and develop.
4. **Transferability of Shares:** A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility of transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.
5. **Professional management:** Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.
6. **Scope for growth and expansion:** There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth. With continuous expansion and growth, a company can reap various economies of large scale operations, which help to improve efficiency and reduce costs.
7. **Public confidence:** A public company enjoys the confidence of public because its activities are regulated by the Government under the Companies Act. Its affairs are known to public through publication of accounts and reports. It can always keep itself in tune with the needs and aspirations of people through continuous research and development.
8. **Diffused risk:** The risk of loss in a company is spread over large number of members. Therefore, the risk of an individual investor is reduced.
9. **Social benefits:** The company organisation helps to mobilise savings of the community and invest them in industry. If facilities the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

Demerits of Company

A company suffers from the following limitations :

1. **Difficulty of formation:** It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.
2. **Excessive Government control:** A company is subject to elaborate statutory regulations in its-day to day operations. It has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations. A lot of precious time, effort and money has to be spent in complying with the innumerable legal formalities and irksome statutory regulations.
3. **Lack of motivation and personal touch:** There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and. stake in the company. Absentee ownership and impersonal management result in lack of initiative and responsibility. Incentive for hard work' and efficiency is low. Personal contact with employees and customers is not possible.
4. **Oligarchic management:** In theory the management of a company is supposed to be democratic but in actual practice company becomes an oligarchy (rule by a few). A company is managed by a small number of people who are able to perpetuate their reign year after year due to lack of interest, information and unity on the part of shareholders. The interests of small and minority shareholders are not well protected. They never get representation on the Board of Directors and feel oppressed.
5. **Delay in decisions:** Too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.
6. **Conflict of interests:** Company is the only form of business where in a permanent conflict of interests may exist. In proprietorship there is no scope for conflict and in a partnership continuous conflict results in dissolution of the firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.
7. **Frauds in Promotion and Management:** There is a possibility that unscrupulous promoters may float company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on, misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters. Moreover, the directors of a company may manipulate the prices of the company's shares and debentures on the stock exchange on the basis of inside information and accounting manipulations. This may result in reckless speculation in shares and even a sound company may be put into financial difficulties.
8. **Lack of Secrecy:** Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Wide spread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. **Disadvantageous from Social Point of View:** From social point of view, a company form of organisation is considered undesirable for the following reasons:
   (a) The joint stock companies tend to form combinations exercising monopolistic powers against the consumers of their products and small produces in the same line;

Notes

   (b) A company tends to concentrate economic power in a few hands;
   (c) A company encourages reckless speculation in shares on stock exchange.

   Due to this, prices of its shares fluctuate artificially which goes against the interests of the company and discourages fresh investment in companies.
   (d) A company makes possible obligarchic management of its affairs. The oligarchy is harmful for the gelleral body of shareholders.

Suitability: Despite its drawbacks, the company form of organisation has become very popular, particularly for large business concerns. This is because its merits far outweigh the demerits. Many of the drawbacks of a company are mainly due to the weaknesses of the people who promote and manage companies and not because of the company system as such. The company organisation has made it possible to accumulate large amounts of capital required for large scale operations. Due to its unique characteristics, the company form of ownership is ideally suited to the following types of business:

(a) heavy or basic industries like ship-building, coach-making factory, engineering firms, etc., requiring huge investment of capital.
(b) large scale operations are very crucial because of economies of scale, e.g., department stores, chain stores and enterprises engaged in the construction of bridges, dams, multistoryed buildings etc.
(c) the line of business involves great uncertainty or heavy risk, e.g., shipping and airline concerns.
(d) the law makes the company organisation obligatory, e.g., banking business can be run only in the form of company..
(e) the owners of the business want to enjoy limited liability.

5.7 Co-Operative Society

The co-operative form of business organisation developed rather late and has assumed importance gradually. As a matter of fact, it started developing to mitigate the limitations of other forms of organisation and substitute the profit-motive with service-motive. Thus, it is a special form of business ownership that differs from all other forms we have discussed so far. In this type of organisation, the capital is supplied by individuals who buy shares similar to those of company. Each shareholder has one vote in the management of the business, regardless of the number of shares he owns. Surplus earnings are distributed to the shareholders in the form of dividends, which are usually based of the volume of the shareholders' purchases from the co-operative in case of consumers' co-operative store, or in proportion to the goods delivered for sale to the co-operative society in case of producer's co-operative store.

The primary motive behind co-operatives is to supply goods and services at a cost lower than they could be obtained from business that are operated by the owner for profit.

The International Labour Office defines a co-operative as "an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organisation, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking".

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Features of Co-operative Organisation

1. **Voluntary Association:** A co-operative organisation is a voluntary association of persons. Its voluntary character is one of the most guiding principles of co-operative organisation. It implies principles of co-operative organisation. It implies that every individual, irrespective of his caste, creed, religion, sex, etc. is free to become member of the co-operative and leave it any time, after giving proper notice. It also implies that none should be forced or coerced to join it.
2. **Equal Voting Rights:** In co-operative form of organisation, each member has equal voting right. This means that every member irrespective of his holdings of shares or status is given one vote. A rich person cannot hold control of the cooperative organisation on the basis of his wealth. All members have equal voice in the management of the organisation.
3. **Democratic Management:** Democracy is the rule of co-operatives. In a co-operative society since each member has equal voting right, its management is essentially democratic. All the members of a society elect a body of persons to conduct and control the working of the society. The members frequently meet and give guidelines to its executive. Thus, a co-operative organisation is an emblem of true democracy.
4. **Service Motive:** Unlike, earlier forms of business organisation, the primary objective of establishing co-operative form of organisation is to render maximum service to its members. Here, the aim is not to earn profits: The co- operative societies do earn a nominal amount of profit to cover-up administrative expenses. Thus, co-operatives promote social justice.
5. **Limited Return of Capital:** The capital invested in a co-operative is not given an undue preference. A limited rate of interest is allowed; because capital appreciation is not the main motto of co-operation. Under the existing law in India, a maximum of 10 per annum can be given as return on capital contribution to the co-operative. This is a first charge on surpluses of the society.
6. **Separate Legal Entity:** A co-operative society must get itself registered under the Co-operative Societies Act, 1912 or under the Co,-operative Societies Act of a State Government. Like a joint stock company, it is a separate legal person, it can own property, enter into contracts, sue and be sued in its own name.
7. **Equitable Distribution of Surplus:** Unlike other forms, of business organisation, surplus earned by a co-operative society is distributed among its members equitably on basis other than capital contribution of the members. As per the law governing Co-operative organisation, 25 per cent of its profits after meeting its trading expenses and paying a fixed rate of dividend on capital not exceeding 10 per cent is to be transferred to general reserves. In addition, a portion of the profit not exceeding 10 per cent may be utilized for the general welfare of the locality in which the co-operative society is functioning. The residual, if any, may be distributed among members on the basis to be decided by the members collectively. Normally, in case of consumers' co-operatives, this residual is distributed according to purchases made by the members from the Co-operative Society; and in case of producers co-operatives, this profit is distributed in proportion to the goods delivered to the Co-operative society for sale.
8. **State Control:** The activities of the co-operative societies are subject to certain rules and regulations framed by the Government. There are many formalities which are required to be completed for getting the society registered under the Co-operative Societies Act, 1912 or the State Co-operative Societies Act of the particular State. The audited accounts and affairs of the society are inspected by the Government periodically. Besides this, a co-operative society has to submit annual reports and accounts to the Registrar of Co-operative Societies.

Advantages of Co-operative Society

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1. **Easy to Form:** As compared to a joint stock company, it is easy and simple to form a co-operative society. The legislative formalities required for its formation are not many. In addition to this, it is economical, as the expenses involved in its formation are comparatively less.
2. **Democratic Management:** A co-operative society is managed in a true democratic way. All the members have a say in its working. They elect a managing committee on the basis of "one-man-one-vote". This committee looks after the working of the organisation in the general interest of all the -members. It is not controlled by vested interests only.
3. **Limited Liability:** The members' liability remains limited to the extent of capital contributed by them.
4. **Perpetual Succession:** Unlike sole proprietorship and partnership, it does not cease to exist on the death, lunacy, insolvency, permanent incapability etc. of, its members. Like a company it has perpetual succession; because it has separate legal entity which is not affected by the changes among its members.
5. **Economic Operation:** The working in a co-operative society is quite economical. Several expenses are reduced due to elimination of the middlemen, voluntary services provided by its members, or services provided at lower salary, and also because there is no need to maintain huge stocks.
6. **State Patronage:** The co-operatives have been adopted by the Government as an instrument of economic policy. Therefore, they are assisted in various ways by the Government so as to make them a success.
7. **Social Benefits:** Co-operation is a philosophy and a way of life. It helps to educate members to live together. It teaches them thrift, self- help, moralvalues and self-government. It promotes the spirit of co- operation in place of spirit of competition. It enables them to serve others rather than exploit others. Thus, it raises the standard of living of the members and also raises moral standards of the masses.
8. **Scope for Internal Financing:** Since a co-operative society has to create some compulsory reserves out of its profits, there is enough scope for ploughing back of profits in such organisations. This source of internal finance can be utilized for modernisation and growth of the co-operatives.

Disadvantages of Co-operative Society

1. **Limited Resources:** The co-operatives are not able to raise huge amounts of capital; because their membership comprises persons of limited means and is limited to local areas. The principle of one-man one-vote and limit on divided also subdue the enthusiasm of their investing members.
2. **Limited Size:** Since the principle of co-operation cannot be extended beyond a certain limit, the co-operatives are likely to fail if they choose expansion of their organisation like big joint stock companies. Large-scale production or distribution is not suitable for co-operative organisations:
3. **Lack of Secrecy:** A co-operative society, being separate legal entity is required to disclose fuller information to its members. Thus, secrets of the business cannot be maintained.
4. **Lack of Motivation:** Since there are restrictions on the rate of dividend, the members of the managing committee do not feel motivated enough to put their best to make the organisation a success.

5. **Inefficient Management:** A co-operative society is managed by a managing committee which is composed of elected members who are not necessarily experts in management. Moreover, they are not in a position to attract professional managers; because they are not in a position to pay high salaries to them. Thus, the co-operatives in general, suffer from inefficient management.
6. **Internal Quarrels and Rivalries:** The members of a co-operative are very enthusiastic in the beginning; but after the initial zeal is over they start showing indifference towards their organisation. Often, they quarrel on petty matters. The normal working of the co-operative is affected due to factionalism among the members. His further weakened by power politics and casteism, etc.
7. **Excessive Government Interference:** The co-operatives are exposed to a considerable degree of regulation by the co-operative department. A certain degree of control is welcome; but too much of it and unwanted interference acts as a deterrent to the -voluntary nature of co-operatives; it goes against the operational flexibility of the co-operatives and, thus, affects efficiency of management of the co-operatives.

Suitability: The co-operatives are primarily suitable for small and medium size organisations and particularly for trading organisations. Since the co- operatives suffer from the limitations of limited financial resources; lack of efficient professional management, excessive Government regulation, lack of motivation, etc., they are not suitable for a large size organisation. However, there are certain exceptions to this rule where the co-operatives have overcome some of their limitations mentioned above and are running their business on large-scale successfully. For instance the Kaira District Milk Producers Co- operative Union Limited, Anand, Gujarat (of Amul fame), the Indian Farmers and Fertilizers Cooperative (IFFCO), the Textile co-operatives and the consumers' co-operatives of Tamilnadu and Kerala are large-sized organisations, being run on the principle of co-operation.

5.8 Choice of a Suit able Form of Business Organisation

After having discussed the various forms of business organisation with their relative advantages and disadvantages, it would be appropriate now, to examine how a final choice is made of a suitable form of orgnaisation by the entrepreneur concerned. The choice of an appropriate form of ownership organisation is an important entrepreneurial decision; because it has a bearing on income, risk and control as related to the entrepreneur. The choice of the suitable form, is never based on a single factor, it should be based on all relevant considerations concerning the business as known to the entrepreneur at the time of taking a decision.

The problem of choice of a suitable form of business organisation arises at two occasions - while starting a new business and secondly, when its expansion becomes essential. It may be noted that there is no single form of business organisation which may be considered the best under all the circumstances; in fact, a form of orgnaisaion which is considered the best in one case, may prove to be a complete failure in another case.

At the time of launching a new business enterprise, the choice of the form of ownership is dictated by several factors as given below:

1. Nature of business - Service, trade, manufacturing.
2. Scale of operations - Volume of business (large, medium, small) and size of the market area (local, national, international) served.
3. Degree of direct control desired by owners.
4. Amount of capital required initially and for expansion.
5. Degree of risk and liability and the willingness of owners to assume personal lability for debts of business.

6. Division of profits among the owners.
7. Length of life desired by the business.
8. Relative freedom from Government regulations (flexibility of operations).
9. Scope and plan of internal organisation.

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10. Comparative tax liability.

It must be noted that these factors are interrelated and interdependent. For instance, the amount of capital required and the degree of risk involved depend upon the nature and volume of business operations. The degree of control and the division of profits are both related to risk and liability. Therefore, an entrepreneur should not consider these factors in isolation. The interrelationship between these factors should be duly considered.

Choice of Form of Organisation for Expanding Business

If an entrepreneur carries out of activities of his business successfully over a period of time, there is likely to be a need to expand his business so that much larger demands are easily met. Since the resources - financial and managerial - of the entrepreneur are limited, he will have to review the existing form of business organisation and find out the possibility of changer-over to another form to carry out the necessary expansion. Thus, while implementing the expansion programme, he has to choose between carrying on with the existing form and changing the existing form of organisation. The main problems that an expanding concern will have to attend to are:

(i) Increased financial requirements.
(ii) Need for internal re-organisation.
(iii) Need for specialised services.
(iv) Increase in the risk and the personal liability of the owners.
(v) Retention of effective control.
(vi) Increased tax liability.

The nature and extent of the problems mentioned above will depend upon the existing form of organisation, the nature and the size of business, and the expansion programme. The various alternatives available to an entrepreneur, if he decides to change the existing form of organisation, are as follows:

(a) A sole trader may employ a manager or change-over to a partnership.
(b) A partnership may have more partners or switch to a private company.
(c) A private company may shift to a public company.

A brief evaluation of these alternatives, on the basis of the characteristics of an ideal form of organisation discussed earlier, is as follows:

First Alternative: Employment of Manager vs. Change-over to Partnership

When a. sole proprietor is successful in his business, it becomes essential for him to expand it to meet much larger demand To achieve this, he needs additional capital and additional help in management. He has two alternatives. He may either employ a paid manager or may take one or more partners. The relative advantages and disadvantages of both the alternatives are examined under the following heads:

1. **Re-organisation:** If the sole proprietor decides to employ a manager, there will be no change in the form of existing organisation. Only a 'contract of service is to be made with the manager. On the other hand, if one or more patterns are taken, there will be change in the form of organsiation from sole- proprietorship to partnership. This change requires entering into a partnership agreement, drafting of a partnership deed and possibly, getting

the firm registered; as registration is desirable. Besides this, it is difficult to find out a partner. Thus, as compared to having one or more partners, it is easier to employ a paid manager.

2. **Capital:** When a manager is employed the additional funds are to be arranged by the sole proprietor himself. There is, however, an advantage in this; the sole proprietor does not share profits with the manager and therefore, the repayment of loan is possible out of profits. In case a partner or partners are taken, additional capital will be brought in by him or them. The sole proprietor need not borrow additional funds and bear the burden of their repayment; but the partners will have to be given shares in the future profits of the firm.
3. **Control:** If a manager is employed, full control of the business continues with the sole proprietor. On the other hand, if a partner is taken, control is to be shared with him unless he is a sleeping partner who contributes capital but does not participate in management: Finding such a sleeping partner, however, is difficult.
4. **Management:** In case a manager is employed, the quality of management in the firm is likely to improve; because a manager possesses the necessary knowledge and skill for the purpose. However, the manager may not take full interest in the business; as there is no direct relationship between his efforts and reward; he gets fixed salary. On the other hand, if a partner with necessary managerial skills is taken, he will contribute to additional capital and will also help in successful running of the business. His interest in the business will be full; because he is going to share its profits.
5. **Secrecy:** If manager is employed, the sole proprietor can keep all important business secrets to himself. In partnership, all these secrets have to be shared with partners. Therefore, in a partnership; business secrets can be retained by the partners so long as they act in good faith and harmoniously; if they fall out, secrets may become public.
6. **Business Risks:** In case a manager is employed, the sole proprietor has to bear all the business risks; He is personally responsible for repayment of loans borrowed for the business and has to suffer all the losses. In partnership, risk are shared by all the partners. They are jointly and severally liable for the acts of one another and for the entire debts of the firm.
7. **Tax Advantage:** When a manager is employed, the salary payable to him is a charge against profits of the business. Moreover, interest paid by the sole trader on the loans of the business is allowed as deduction for tax purposes. If a partner is taken, share of profit payable to him is liable to tax in the hands of the firm if the firm is not registered under the Income Tax Act. Thus, in case of partnership, the tax-incidence increases.
8. **Continuity:** With the employment of a manager, the form of organisation does not change. Therefore, even after the appointment of the manager, the sole proprietorship remains unstable; it comes to an end with the death, insolvency or insanity of the proprietor. On the other hand, when a partner is taken, the partnership firm may be carried on by the remaining partners in case of death, insolvency or insanity of one of the partners. Moreover, because of more funds and better capacity to face risks, a partnership is in a better position to survive.
9. **State Regulation:** If a manager is employed, no compliance with any regulation is required. From this point of view, a partnership is also almost at par with sole proprietorship; because state regulation in its case is minimum.

Conclusion: From the above it appears, that in the initial stages of expansion, employment of a manager will be better for the sole trader, provided he has managing capacity and sufficient credit standing for raising additional funds from outside, However, as the business expands further and the sole proprietor wants to diversify his business, it is advisable that he should opt for partnership. The partner(s) will not only contribute to the capital of the firm but will also be helpful in sharing the risks associated with the expanded and diversified business particularly when it is, uncertain and risky. Besides this, a partner or partners, will also contribute towards making the management of the firm effective.

Second Alternative: Partnership vs. Private Company

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As the business of the sole proprietor expands further, he is faced afresh with the alternatives of the forms of organisation. He may opt for partnership, or convert his business into private company. Similarly, an expanding partnership firm is also confronted with the alternative forms of organisation. The partners of such a firm may have to decide either in favour of more partners or in favour of private company. While selecting between these two alternatives, the following facts should be taken into consideration:

1. **Re-organsiation:** As compared to company, formation of a partnership firm is easier; because there are no legal formalities to be completed is its formation. Registration of the firm is not compulsory. On the other hand, incorporation of a company calls for the compliance of several legal formalities. Thus, on this count, the partnership enjoys a distinct advantage over a private company.
2. **Capital:** For a medium-sized business, both partnership firm and private company can raise sufficient funds. However, a private company can raise more funds; because the limit on the maximum number of members is 50 as against only 20 (10 in banking business and 20 in non-banking business) in case of partnership. Nevertheless, the creditworthiness of a partnership is better because of unlimited, joint and several liability of the partners.
3. **Liability:** The liability of each member of a partnership is unlimited, whereas the liability of the members of a private limited company is limited to the face value of the shares held by them. Therefore, partnership firm may be preferable for a medium-sized business with stable character. On the other hand, a private company would be a better choice for a large business of speculative nature. The limited liability is, definitely, a plus point" in favour of private company form of organisation.
4. **Control:** In case a partnership is formed, the original owner has to share control of the firm with other partners unless they are sleeping partners. On the other hand, in a private-company, the original owner may be able to retain effective control of the business by holding the office of the managing director of the company.
5. **Management:** In a partnership, since every partner has a right to be consulted with regard to the affairs of the firm, inefficiency may creep in its management because of misunderstanding and conflict among the partners. On the other hand in case of private company, its management rests with the few elected directors who are in a position to take decisions promptly and boldly.
6. **Secrecy:** Secrecy can be maintained in both the forms of organisation almost equally well except that, unlike a partnership firm, a private company has to file its audited accounts with the Registrar of companies.
7. **Continuity:** A partnership firm may come to an end on the death, retirement, insolvency or lunacy of a partner. On the other hand, a private company enjoys continuity and stability and is not affected by change in its members; it may last for generations.
8. **State Regulation:** A partnership firm is subject to nominal Government regulation, even if it is registered. Of the other hand, although a private company enjoys privileges and expemptions under the Companies Act, yet it has to comply with a large number of legal formalities which involve considerable amount of time and money. A partnership has a clear edge over a private company on this count.
9. **Tax Advantage:** A partnership firm is at an advantageous position on the basis of tax liability. A partnership pays tax on its profits at progressive rates whereas a private company pays

tax at a flat rate. Therefore, the tax burden is lighter in case of a partnership business than in case of a private limited company, particularly, where the scale of operations is small or medium. However, tax liability would be lower in case of a private company if the business profits are large.

Conclusion: Before going ahead with the re-organisation of the business, the businessmen should consider all the factors mentioned above carefully. A partnership firm is as advantageous as a private company; preference for the latter may be because of the advantage of limited liability. Ultimately the decision will depend on nature and size of the business and the weight assigned to the various factors discussed above.

Third Alternative: Private Company vs. Public Company

In general, for a medium-size business, both a partnership and private limited company are considered suitable. Even for a sole proprietor, whose business is expanding fast, conversion to private limited company may be advisable. He will get the benefits of limited liability and reduced tax liability; presuming his income falls in the higher income bracket. However, when a private company finds it difficult to meet the requirements of its fast growing business, it has to choose between the existing form of organisation and the possibility of converting the private company into a public company. The decision will depend upon the careful consideration of the following factors:

1. **Re-organisation:** The formation of a private company is easier that of public company; because the former enjoys many privileges and exemptions. For example, a private company needs only two members for its incorporation as against minimum of seven in a public company. A private company can commence business immediately after its incorporation whereas a public company is required to raise minimum subscription and obtain a certificate for the commencement of business. When business expands, a private company may be converted into a public company by amending the articles of association with respect to number of members, offer of hares to the public and their transferability.
2. **Capital:** The amount of capital that can be raised by private company is limited because of limit on the number of members and restrictions on issue of prospectus to the public. The limited liability of its members puts a limit on its borrowing power. On the other hand, a public company can raise enormous amount of capital from the investors scattered throughout the country. It can also procure additional funds by issue of debentures and by borrowing from special financial institutions.
3. **Control:** Since a private company is a closely controlled company, it is possible for the original entrepreneurs to retain control of the company in their hands by holding key positions on its board of directors. They can restrict the number of members of the private company to retain their control. However, in a public company, control is shared with other investors. The special financial institutions like ICICI, IFCI, IDBI, LIC, etc. which are empowered to covert their loan into equity shares may have effective check on the policy decisions of a public company. Thus, control is more personal and direct in case of a private company.
4. **Management:** Both the types of company are manage by the elected Board of Directors. In case of a private company, the Board consists of the entrepreneur and his close associates, often family members. Thus, practically, there is no gap between the owners and the manager in a private company. On the other hand, in a public company, the Board consists of non-owners, also many of whom are elected because of their special managerial skills. Thus, professionalism gets boosted in company management.
5. **Secrecy:** Unlike a public company, a private company is in much meter position to maintain secrecy in the conduct of its business affairs. Although it is required to file its audited annual

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accounts with the Registrar of Companies yet they are not open to public. On the other hand, all the papers and documents field with the Registrar of Companies by a public company are open to public inspection on payment of a nominal fee. Thus, a public company is not in a position to maintain secrecy of its affairs.

6. **Government Regulation:** A private company, being a closely held company, is left relatively free to conduct its affairs without much Government regulation. Rather, it is granted certain privileges and exemptions. On the other hand, a public company, being widely held, involves wider public interests, and therefore, is subject to several legal formalities under various Act. The Government has been given wide powers to regulate and control the management of a public company. The regulatory provisions very often prove cumbersome and costly. Such regulations not only have adverse effect on the freedom of management but also reduce flexibility of operations.

5.9 Environmental Factors Affecting Success of a New Business; Reasons for the Failure and Visible Problems For Business

Entrepreneurship will flourish only under the right atmosphere to be conducive to the social, political and economic issues. Even though the urge to excel others and to create something new is inborn and psychologically oriented in the larger anlaysis, this urge to excel others will fail to obtain the full freedom of expression unless the right environment is available.

Thus, since entrepreneurship involves a complex of economic and social behaviour, it can only survive where conditions are ideal in terms of political, economic, social and ethical concerns, and when economic changes are free from restraints – for the benefit of all concerned. Various environmental factors influencing the success of a new business have already been discussed in lesson-2.

You had a good idea for a business. You may have just jumped into it feet first, or you may have spent months agonizing over it, planning, researching, dotting those i's and crossing those t's. Will your business survive? A lot depends on how you run your business. Every business starts out with high hopes for success, and entrepreneurs spend vast amounts of time, energy and creativity to make that success a reality. Unfortunately for most start up business, that hoped for success, never materializes. About 60 per cent of all business fail within the first two years for certain industries, such as the restaurant industry, the failure rate is even higher. Although chances for business failure diminish as time passes, most businesses are never safe. Competition and changing market conditions ensure that the struggle for success never ends.

With much initiative and enthusiasms, new entrepreneurs establish business units. But many of them commit certain types of blunders, which result in total failure of the enterprise. This in fact, means wastage of the scarce resources of the nation, besides being a deterrent to new entrants.

Reasons for Initial Failures and Visible Problems for Business

The failure of new enterprise and visible problems for business may be traced to the following errors/oversights:

1. Lack of managerial experience or poor knowledge of the particular line of production.
2. Poor accounting system which results in non-availability of basic data necessary for decision-making.
3. Wrong/inadequate estimate of cash requirements or faulty capital planning/ budgeting.
4. Lack of knowledge about tax-related matters. A brief explanation of these factors is given below:

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Lack of Managerial Experience: The new entrepreneur should have allround knowledge about the various aspects of management. He has to bear in mind the fact that he cannot afford to employ experts/specialists for various specialised jobs. Hence, he has to be an all-rounder in management or his job is a multifaced one. As an all-rounder he must look after:

(a) What, how and when to produce;

(b) Marketing of the products manufactured;

(c) Accounting systems; and

(d) Finance.

The owner of a small scale industry should be well-versed in all these areas. If he fails in one of these areas, that is enough to give him heavy losses, which will result in the failure of the enterprise. A technocrat may give much emphasis on technical aspects, but ignore marketing etc. Similarly, one who is well experienced in sales may give undue importance to marketing, but ignores technical aspects. So what is required is a good knowledge about all the aspects of production, marketing, accounting and finance.

5. **Poor Accounting System:** A good accounting system would provide information regarding costs, gross margin, ,break-even point etc. which are highly useful for decision-making. In the absence of proper accounting data, decision making would be difficult and the decisions made would not give the desired effect.

6. **Inadequate Estimate of Cash Requirement:** A proper estimate of cash, requirements will help the proper functioning of the enterprise. A new enterprise feels cash crunch when (a) production does not reach optimum level (b) production is below the break -even point, (c) it fails to create and increase the demand for the product/services. All these factors result in the depletion of cash very easily. This is because the time required for these has been calculated wrongly. Delay in any one of these activities means more cash requirements. Hence the entrepreneur has to estimate the time and also how a month-by- month delay in starting the project would proportionately increase the capital requirements. Costs escalate with the passage of time, therefore calculations have to be made in advance taking into account the capital requirements by taking the time factor.

7. **Lack of Knowledge about Tax Related Matters:** The entrepreneur must make himself aware of the provisions relating to income-tax and sales tax. He must pay special attention to sales-tax laws and regulations - especially obtaining sales tax registration at the appropriate time, filing tax returns regularly etc.

Steps to Overcome Problems

Many studies have been conducted to identify the problems faced by the new enterprise. These studies have mainly pinpointed the above problems and the following suggestions have been made to overcome these problems:

1. Make an intensive study of the proposed project/product/service. Spend a lot of time in preparing budgets, cost estimates, collecting market information etc. These are required to make the proposed venture as realistic as possible. Once the project has been started it may not be possible to consider or make changes.
2. Financial prudency requires that one has to adopt a conservative attitude towards estimating income and liberal in expenses, at the same time there should be wide margin of safety.
3. It is advisable to make use of the services of bankers, management and tax consultants, suppliers etc. to examine the proposed project and elicit their suggestions.
4. Accurate accounting information is vital for the running of the enterprise. Hence, the services of a professional accountant should be made use of in devising an appropriate accounting system.

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5. Professional investors always look for lucrative ventures. If professional investors are associated with the venture, they will scrutinise it from different angles before making any investment. This will help the entrepreneur in determining whether the project is feasible or not and give good returns.
6. Complying with taxation formalities and paying taxes have become a regular headache for many entrepreneurs. The entrepreneurs should collect all information regarding various types of taxes such as income- tax, sales-tax, excise duties etc. even before the unit is started: They must familiarise with changes taking place in taxation laws and seethe unit gets the benefits or advantages of certain taxes. Income-tax, and excise duties come under central laws whereas sales-tax some under state laws.

Entrepreneur as Management Expert

A new entrepreneur sometimes faces hostile business environment reflected through intense competition, imitation of products, duplication of services and the presence of dishonest persons bent upon cheating and committing frauds. It is not necessary for everyone to presume the presence of these odds in market place but one must be ready to face the situation as it emerges at any moment.

To face such odds, one must follow modem management tools. In the present context it is the strategic management which requires preparing a GAME PLAN to guide the entrepreneur or firm in achieving basic objectives of the business. The plan must discuss strength and weakness (S or W), opportunities and threats while facing the environment. A few experts even suggest that this game plan should be a STRATEGIC PLAN that gives a competitor's edge to the enterprise to solve basic urgent questions faced on startup. Otherwise also, the small business in itself is a strategic plan as small firms always have advantages over their larger competitors. This is so because small business have narrower product line and a better defined customer base. Small firms fathom specific geographic market area, and consequently the natural advantages in strategic management. It is well known that the techniques of big flexible managerial style, informal organisational structure with adaptability of change enjoyed by the SSI units and they need different approach to strategic management.

Ingredients of Strategic Management for Business Enterprises

Strategic management for business enterprises should include the following, i.e. (i) Short term plan for less than 2 years; (ii) informal structure; (iii) greater employees participation and outside parties to improve reliability of plan; and (iv) focus on thinking than on planning or setting objectives; and (v) be flexible to adjust the realities of daily routine. For strategic management, strategic planning is done which should be based on entrepreneur's own idea for product or service that is valuable to the society and has potential to produce profits.

Strategic Management for Business Enterprises

For any entrepreneur, strategic management is state of preparedness to meet challenges emerging from unforeseen circumstances of the business. Therefore, the business plan which an entrepreneur prepares should be of short duration that is of less than two years so as to accommodate changes in near future and to avoid risk of uncertainties of distant future. Employees participation should be encouraged in management so that the ground realities daily emerging could be well understood and activities are planned and adjusted accordingly.

Strategic management is based on strategic planning as already described above. But such strategic planning should be based on considerations such as clear vision and a meaningful mission of the management; entrepreneur's own driving force and position of the enterprise in the market; assessment of the firm's strength and weaknesses; scanning business environment and available opportunities; strategic options and selection of appropriate strategy; and using accurate control measures for assessing the results.

For an entrepreneur it is not difficult to follow the above game plan strictly. Each of the above steps are briefly narrated below:

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1. **Clear vision and meaningful mission:** One must know the purpose of the business. To achieve this purpose one must have clear path to reach to it. This requires defining the jobs and designing the operational structure to set the work in preferred co-ordinating spirit and manner.
2. **Driving force and market position:** Unless market position is clearly assessed and defined no driving force will work. One must identify, within the market area, the customers aimed at to be served.
3. **Strength and weakness:** One must study the positive as well as negative internal factors and make sincere attempt to overcome negative factors by building strong positive factors.

   For example lack of skill be over come by building specific skills; lack of know-how in any specified area be suppressed by accurate and requisite knowledge in that area and likewise.
4. **Scanning Business Environment:** Business environment play significant role for the success of the enterprise. Here, entrepreneur must scan environment viz. (i) Macro- environment covering economic, social, political, technological conditions prevailing in the country and changes taking place to judge their individual and combined impact on the business activity of the entrepreneur; (ii) Micro environment to know placement of the product-in the specific industry classification. Industry environment will reveal the strength of the competitors in the industry. The future prospects of the product, its substitutes and market share the industry commands, customers' behaviour or competitors strategies both could be known through such analysis. This enables entrepreneur to balance his own strength and weakness against the opportunities and threats these market forces present.

   Sources of information for the study of business environment are plenty viz. (a) Publications of industry or trade associations; (b) local newspapers; (c) competitors press releases, literature, advertisement, brochure, etc.; (d) attend sales manager's periodical meeting to get feed back of competition; (e) Purchase competitors products and analyse it for useful publicity information; (t) customers grievances, opinions and suggestions; (g) government reports, publications, policy statements, etc. (h) attend industry and trade fairs. etc.
5. **Strategic options and strategies:** In the light of the above findings, entrepreneur should redefine its goals, revise its strategies, modify action plans and redraft approaches. In other words, to achieve objectives, adopt competitive strategy. For example, to attain price leadership the firm must produce low cost products than competitors. For that purpose, reduce manufacturing cost by changing process or inputs without loyalty to the brand and likewise steps could be taken.
6. **Accurate Control Measures:** For success in any field; one must know the gaps between planned objectives and the achievements and the reasons for such a gap to remedy the loopholes. Such control measures should cover different areas in the workfloor i.e. production departments performance through employee performance; sales departments performance through turnover and revenue realisation and product's performance through customers satisfaction and demand analysis, etc.

The task of strategic management is rendered easier if the entrepreneur prepares a file each of the above areas and keeps on filing the collected information in each separate file and periodically analyse the information collected therein. By doing so, the entrepreneur will be nearer to the goal of strategic planning. These efforts will fetch success to the business enterprises, if their entrepreneur is properly trained and his skills toned up.

5.10 Why Do Business Fail

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The U.S. Small Business Administration conducted a study that looked at the reasons for small business failure. Here are the major reasons ranked according to frequency:

1. **Inadequate front-end planning:** No business plan prepared; no feasibility study done and no cash flow projections done.
2. **Insufficient Capital for Startup and Back-up:** Even most dedicated works cannot overcome ongoing capital deficiencies due to startup losses.
3. **Inexperienced, Management:** Insufficient experience in the management and the day-to-day operations of the business or of any business.
4. **The Wrong Location:** Low traffic, no expansion area, changing the business is not convenient because of driving and parking distance, transportation costs, employee unwillingness to live in the community.
5. **Inventory Mismanagement:** Too much of the wrong inventory.
6. **Too much Capital in Fixed Assets:** The failure to properly anticipate the cost of equipment and real estate needed to start and expand.
7. **Poor credit practices:** Failure to properly extend and control credit policy and practices..
8. **Unplanned expansion:** If one location is doing well, a second doesn't mean the business will do twice as well unless management is available.
9. **Having the wrong attitude:** Not ready to work longer and harder than ever before; too much money in trappings arid appearance.
10. **Inadequate Records and Financial Knowledge:** Unwillingness to employ and work with a banker, accountant, and a lawyer.
11. **Lack of Managerial Foresight:** Failing to build staff to compensate for the weaknesses of the founder or owner; failing to adequately compensate second-line management.

Michael Gerber, founder and CEO of Gerber Business Development Corporation, author of The E-Myth: "Why Most Small Business Don't Work and What To Do About It" (Harper Business), has compiled, based on his 17 years of small business research, his own list of reasons why small business fail. Among the reasons he cites:

1. **Lack of Management Systems:** Most entrepreneurs have no systematic way of generating information or determining what is and is not working. Also, there is little or no effort to covert data into usable information.
2. **Lack of Vision and Purpose by the Principals:** Entrepreneurs need to view their business as a means to an end. Bill Gates; for example, has become successful because his purpose was to put a computer in every home and his business was a way to achieve that goal – not vice versa.
3. **Lack of financial planning and review:** Most self-employed people concentrate primarily on generating income when they should be most concerned with building equity.
4. **Poor Market Segmentation or Strategy:** Most entrepreneurs don't know who their customers are. Factors such as customer age, geographic locations, and family size can have an impact on what and how they buy.
5. **Compdition or lack of market knowledge:** The self-employed are often so engrossed in the daily task of running a business that the last thing they think about is what their competition is doing and how they can do it better.
6. **Inadequate capitalization/under funded:** Although this factor commonly rates as the primary reason for business failure, it is actually a symptom o(underling problems.

5.11 On the Upside

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It's true, there are a lot of reasons not to start your own business. But for the right persons, the advantages of business ownership far outweigh the risks.

You get to be your own boss.

Hard work and long hours directly benefit you rather than increasing profit for someone else.

Earning and growth potential are far less limited.

A new venture is exciting. Running a business will provide endless variety, challenge and opportunities to learn.

Getting Started: Starting and managing a business takes motivation, desire and talent. It also takes research and planning. Like a chess game, success in small business starts with decisive and correct opening moves. And although initial mistakes are not fatal, it takes skill, discipline and hard work to regain the advantage.

To increase your chance for success, take the time up- front to explore and evaluate your business and personal goals. Then use this information to build a comprehensive and well-though-out business plan that will help you reach these goals.

The process of developing a business plan will help you think through some important issues that you may not have considered yet. Your plan will become a valuable tool as you set out to raise money for your business. It should also provide milestones to gauge your' success. Before starting out, list your reasons for wanting to go into business. Some of the most common reasons for starting a business are:

- You want to be your own boss. You want financial independence. You want creative freedom.
- You want to fully use your skills and knowledge.

Next you need to determine what business is "right for you". Ask yourself these questions:

- What do I like to do with my time?
- What technical skills have I learned or developed? What do others say I am good at?
- Will I have the support of my family?
- How much time do I have to run a successful business? Do I have any hobbies or interests that are marketable?
- Then you should identify the niche your business will fill. Conduct the necessary research to answer these questions:
- What business am I interested in starting? What services or products will I sell?
- Is my idea practical, and will it fill a need? What is my competition?
- What advantage does my business have over existing firms? Can I deliver a better-quality service?
- Can I create a demand for my business?

The final step before developing your plan is the pre-business checklist. You should answer these questions:

- What skills and experience do I bring to the business? What will be my legal structure?
- How will my company's business records be maintained? What insurance coverage will be needed?
- What equipment or supplies will I need? How will I compensate myself?

- Where will my business be located? What will I name my business?
- Your answers will help you create a focussed, well researched business plan, that should serve as a blueprint. It should detail how the business will be operated, managed and capitalized.

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Entrepreneurial Skills

Similar to the game of chess, success in business starts with decisive and correct opening moves. And although initial mistakes are survivable, it usually requires skill, discipline and hard work to regain the advantage.

There are five basic skills anyone must have to run any kind of business:

1. **Basic money-management skills:** While you don't need to have a lot of money to start a business successfully, you do need the ability to make the most of the money that you have. Being able to focus on the bottom line and pay attention to the numbers is as essential as the ability to price your products and services, manage your cash flow, and make sure you collect payment for the work you do. If you are lacking in these skills, you can get training in business.
2. **A Marketing Mindset:** You aren't truly in business until you have business. No matter how much your product or service is in demand, or how great a job you do, if people don't know about you, you won't have much business. You must be able to make your business visible the people who need it, and this means understanding marketing.
3. **Self-management skills:** To make it on your own, you must become a goal-directed and self-motivated individual. You must be able to get yourself started every day, stick to business, and close the door on work at the day's end.
4. **Time-management skills:** In your business, you will need to wear many hats, from-chief executive officer to janitor. You'll have to do the business, get the business, and run the business. This means you'll need to manage your time effectively to make sure the most important and urgent things get done in a timely fashion.
5. **Basic Office Organization:** Since one of the roles you'll probably play is that at your own office administrator, you will need to be able to organize, equip and manage your office space so that you can work effectively in it, having a place for everything and keeping everything in its place go that you can find it easily when you need it.

5.12 Project Formulation

The very foundation of an enterprise is the project. The success or failure of an enterprise depends on the project. Hence, the project is of crucial importance to the entrepreneur. The dictionary meaning of project is an idea or plan that is intended to be carried out in the future or that is being carried at present. A project is a cluster of activities that is relatively separate and clear-cut, e.g., building a factory, hospital etc. A project typically has a distinct mission that is designed to achieve and clear termination point, the achievement of the mission. In common parlance, the term project is used to refer to projects such as industrial projects, agricultural projects, illiteracy eradication project etc. An entrepreneur has to implement as idea or plan and see that he achieves it – that is, he completes the project successfully.

Meaning of Project

Gittinger defines project "as the whole complex of activities involved in using resources to gain benefits". An entrepreneur implements a project overcoming various hurdles, with a view to get some benefits - mainly monetary rewards. The entrepreneur originates the idea, makes a detailed study of the various aspects of the project to be implemented, estimates the profit that would accrue from the project, and finally implements it.

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Project Life Cycle

A project has to pass through three distinct stages:

1. **The Pre-investment Stage:** It covers setting of aims and objectives, forecasting of demand, selection of best means or strategies to achieve objectives, evaluation of characteristics of resources or inputs required, projection of financial plan, cost-benefit analysis and ultimately, the pre- investment appraisal. The project idea is converted into a concrete investment proposal or scheme on which promoters and financiers can base their investment decision.
2. **The Construction Stage:** It starts after the investment decision is taken. Resources in the form of land and buildings, plant and machinery, transport, communication and other services, control systems, sales, and marketing organisation, managerial personnel, acquisition of materials and supplies, etc., are assembled and all these resources are allocated to develop or create a tangible project which is ready to achieve the set objectives.
3. **The Normalisation Stage:** The allocated resources of assets (created during the second stage) are utilised or employed to produce the end results, i.e., output of goods or services which are required to fulfill the project objectives. The project starts operating, i.e., processing inputs and generating outputs.

5.13 Project Classification

Projects have been classified in various ways by different authorities. Little and Mirreless divide the projects into two broad categories, viz., quantifiable projects and non-quantifiable projects. The planning commission has accepted the sectoral criteria for classification of projects. Projects can also be classified on the basis of techno-economic characteristics. All India financial institutions classify the projects on the basis of the nature of the projects and its life cycle. The project classification are explained below:

1. **Quantifiable and non-quantifiable projects:** Quantifiable projects are those in which a plausible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such an assessment is not possible. Projects concerned with industrial development, power generation, mineral development are forming put of quantifiable projects. The non-quantifiable projects category comprise health, education and defence.
2. **Sectoral Projects:** According to the Indian Planning Commission, a projects may fall in the following sector:
   (a) Agriculture and Allied Sector
   (b) Irrigation and Power Sector
   (c) Industry and Minings Sector
   (d) Transport and Communication Sector
   (e) Social Services Sector
   (f) Miscellaneous Sector

   The sector classification of projects is quite useful for resource allocation at macro levels.
3. **Techno-Economic Projects:** Techno-economic projects classification includes factors intensity-oriented classification, causation-oriented classification and magnitude-oriented classification. These three grouping are narrated as under:
   (a) **Factor intensity oriented classification:** The factor intensity is used as base for classification of projects such as capital-intensive or labour-intensive which depends upon the large scale investments in plant and machinery or human resources.

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(b) **Causation oriented classification:** The causation-oriented projects are determined based on its causes namely demand based or raw material-based projects. The non-availability of certain good or services and consequent demand for such goods or services or the availability of certain raw materials, skills or other inputs is the dominant reason for starting the project.

(c) **Magnitude oriented classification:** The size of investments forms the basis for magnitude-oriented projects. Projects may thus be classified based on its investment such as large-scale, medium-scale projects.

Techno-economic characteristics based classification is useful in facilitating the process of feasibility appraisal. United Nations and its specialised agencies use the International Standard Industrial Classification of all economic activities (ISICO) in collection and compilation of economic data. Since this classification covers the entire field of human economic endeavour, it forms a useful basis for classification of projects. Economic activities under this classification are grouped into ten divisions, which are subdivided into ninety sub-divisions. The divisions are:

Division 0	Agriculture; Forestry, Hunting and Fishing
Division 1	Mining and Quarrying
Division 2&3	Manufacturing
Division 4	Construction
Division 5	Electricity, Gas, Water and Sanitary Services, Division 6 Commerce
Division 7	Transport, Storage and Communications
Division 8	Services
Division 9	Activities not adequately described

4. **Financial Institutions Classification:** All India and State Financial Institutions classify the projects according to their age and experience and the purpose for which the project is being taken up. They are as follows:

   (i) New projects

   (ii) Expansion projects

   (iii) Modernisation projects

   (iv) Diversification projects

   The projects listed above are generally profit - oriented and the services oriented projects are classified as under

   (i) Welfare Projects

   (ii) Service Projects

   (iii) Research and Development Projects

   (iv) Educational Projects

5.14 Project Identification

Project identification is a difficult task faced by an entrepreneur. He comes across several investment opportunities. In the first instance, he has to select a few projects which have been subjected to preliminary evaluation. Project identification is concerned with the collection, compilation and analysis of economic data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities.

According to Peter F. Drucker, opportunities are of three kinds: additive, complementary and breakthrough. *Additive opportunity* is concerned with utilizing the existing resources without making any change. *Complementary opportunity* results in introduction of new ideas and involves change. *Breakthrough* involves drastic and fundamental changes in the existing business. Risk is least in additive opportunities, greater in complementary and greatest in breakthrough opportunities. Bearing in mind these factors and expecting a fair return on investments, the entrepreneur has to choose a project. A few guidelines which help him choose the right line of project are given below.

Choosing the Right Line of Activity

The primary decision to be made by a prospective entrepreneur is choosing the right line of activity. The very success of his venture will depend on the rationality of his decision in the regard.

A business opportunity is born as an impulse during the course of interaction of the entrepreneur with the environment. He proceeds if a competitive advantage is sensed in the following three areas:

1. Procurement of scarce resources.
2. Access to technical know-how.
3. Market.

Nowadays more importance should be given to the third factor, i.e., market.

Then a business potential examination involving a cursory examination of the market, production and financial. parameters is done through further reading/discussions to see whether the competitive advantage sensed earlier could be exploited to set-up an industry of the magnitude envisaged.

A satisfactory response invokes further probing in the form of market survey, feasibility study, etc. If the scheme looks attractive and the degree of calculated risk provides the entrepreneur with an adequate level of confidence, he embarks on further development like a detailed project report, raising funds, obtaining detailed know how, etc.

Primarily the choice of a product is the identification of a market niche and comprises an analysis all analysis based on answers to questions such as:

(i) Is there an unfulfilled need for this product?

(ii) What are the unique features that distinguish this product or service from those offered by other firms?

(iii) Who is the potential customer?

(iv) How and at what cost is the customer to be informed of the product or service? What is the estimated size of the market?

(v) How should product or service be distributed?

(vi) What prices can be charged which will be competitive yet yield a reasonable profit?

(vii) What are the personal strengths and weaknesses which meet/detract from meeting the above identified-needs of the market?

Before taking a decision on the line of activity it is imperative for the promoter to have an interaction with the environment over as wide an areas as possible, so that the ambit, within which he makes the decision, is large enough to enclose most of the opportunities around.

Some important areas from which product ideas may emerge are the following:

(i) Survey of raw materials - agricultural, minerals, forest, animal husbandry, etc.

(ii) Survey of local skills based on which suitable industries can be identified.

(iii) Study of import statistics may reveal some commodities which can be indigenously manufactured.

(iv) Study of export statistics will indicate trends in exports and the possibility of increasing exports for certain products. It may indicate certain products which can be further processed in the country.

Notes

(v) Study of world trade may indicate certain goods in which the country enjoys price advantage and can be manufactured for exporting.

(vi) Study of the stores requirement for major industries and organisations will reveal the requirement of various items.

(vii) Study of development plans will reveal future requirement for certain products or services.

(viii) Study of Government policies regarding industrialisation, exports, imports, development of backward areas, etc.

(ix) Study of new process/products developed by organisations like National Research Development Corporation, Directorate General of Technology. Development, Council of Scientific and Industrial Research, Indian Space Research Organisation, Bhabha Atomic Research Centre, etc.

(x) Study of prospects for ancillarisation.

(xi) Study of potential for tourism – hotels, motels, house boats, etc.

(xii) Project ideas also develop while seeking solutions to our day-to-day problems.

But in reality, the case is quite different. A major constraint faced especially in developing countries is the resources constraint. Hence it becomes imperative that certain project ideas are only taken up or pursued in preference to others. How to make this decision or choose only a few projects for implementation? Project formulation techniques help us in making a choice. When we say project formulation, we mean that a project idea is presented in such a form that it can be subjected to comparative appraisal. This process will aid in definitely determining the priority of projects from the point of view of resource allocation. The project ideas can be analysed from the point of view of inputs as well as outputs. Such an analysis when presented to decision maker or to consulting agencies will help them in decision-making. This strategy analysis project ideas not only from the view point of technical feasibility and financial viability but also evaluates the sum total effect which the project will have on the society and the immediate environment.

5.15 Project Formulation

Project formulation is defined as taking a first look carefully and critically at a project idea by an entrepreneur to build up an all-round beneficial to project after carefully weighing its various components. It is formulated by the entrepreneur with the assistance of specialists or consultants. Project formulation is, therefore, a process where by the entrepreneur makes an objective and independent assessment of the various aspects of an investment proposition of a project idea for determining its total impact and also its liability. By all means, this strategy forms an important stage in the pre-investment phase – that is the period from the conception of an idea until the final analysis to decide about the future of a project idea. This makes it an analytical management aid. The aim of project formulation is to achieve the project objectives with the minimum expenditure and adequate resources. In other words, it is to derive maximum benefits from minimum expenses in a short span of time.

Formulation of project report business plan is one of the corner stones to be laid down in setting up an enterprise. This section is devoted to make you understand what is and how to make a right project report.

5.16 Project Report

After having selected the project/product or the service to be rendered, the entrepreneurs has to prepare a project report. A project report is a report which provides all the necessary information of the unit proposed to be set- up for the manufacture of a product or rendering a

Notes

service. Financial institutions and banks require project report for providing financial assistance. Various developmental agencies which help set-up the project also require project report. A well-prepared project report will help the bankers in appraising the project report and offer financial assistance. A project report enables the entrepreneur to know how much money, man-power and material would be required to set-up the project, type of machine and technology required, and the economic gains from the project. Information regarding economic, technical, financial, managerial and production aspects of the project/service are covered by the project report.

There are chartered accountants, technical consultants, management consultants etc., who prepare a project report on behalf of the entrepreneur. Many time an entrepreneur feels that he would relieve himself of the botheration to prepare a project report by engaging a consultant. Experience in developing entrepreneurs has shown that a well perceived, well made project report by the entrepreneur himself is helpful to him while running the industry. This is so because, the process of preparing the project report enables him to interact with realities and makes him aware of what to expect in the future when he actually implements the project. It's a "drill", a good training prior to jumping into a venture. Therefore, even when he chooses to take the help of a consultant, he must involve himself in the preparation of the project report.

Significance of Project Report: An objective without a plan is a dream. The preparation of a project report is of great significance for an entrepreneur. The important uses of project report are:

- It helps in approaching District Industries Centre for obtaining provisional/permanent registration.
- It helps in procuring developed land or shed from Directorate of Industries or from the Development Corporation meant for providing developed land/sheds' to entrepreneurs.
- It helps in securing supply of scarce raw materials.
- It helps in approaching bank for getting working capital loan.
- It helps in obtaining term loan from State Financial Corporation/Bank.
- It helps the entrepreneur in establishing techno-economic viability of the project.

Contents of a Project Report

Having gone through the significance of project report, it is now clear that there is no substitute for a well-prepared business plan or project report and also there are no short-cuts to preparing it. The more concrete and complete the business plan, the more likely it is to earn the respect of outsiders and their support in making and running an enterprise. Therefore, the project report needs to be prepared with great care and consideration. A good project report should contain the following contents:

1. **General Information:** Information on product profile and product details.
2. **Promoter:** His/her educational qualification, work experience, project related experience.
3. **Location:** Exact location of the project, lease or freehold, vocational advantages.
4. **Land and Building:** Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. **Plant and Machinery:** Details of machine required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.
6. **Production Process:** Description of production process, process chart, technical know how, technology alternatives available, production programme.
7. **Utilities:** Water, power, steam, compressed air requirements, cost estimates, sources of utilities.

Notes

8. **Transport and Communication:** Mode, possibility of getting, costs.
9. **Raw Material:** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any, for procurement of raw material, alternative raw material, if any.
10. **Manpower:** Manpower requirement by skilled and semi-skilled sources of manpower supply, cost of procurement, requirement for training and its cost.
11. **Products:** Product mix, estimated sales distribution channels, competitors and their capacities, product standard, input-output ratio, product substitute.
12. **Market:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
13. **Requirement of Working Capital:** Estimation of working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
14. **Requirement of Funds:** Break-up of project cost in terms of costs of land, building, machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
15. Cost of Production and Profitability of first ten years.
16. Break-Even Analysis.
17. Schedule of Implementation.

Formulation of a Project Report

A project is a report which provides all the necessary information of the unit proposed to be set-up. It is required by various developmental agencies that help, setting-up of the unit and particularly by financial institutions and banks to provide financial assistance. The report should be prepared in such a way that it is able to provide complete information that may be required by financial institutions for appraising the project. A well prepared project report will not only save the time energy of the banker but also help the entrepreneur, who will not face many objection and queries from the banker.

A general set of information given in any project report is listed by Vinod Gupta in his study on "Formulation of a Project Report", which is reproduced, below, the following are broad heads under which complete information on relevant aspects should be included in the project report:

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Sources of Finance.
5. Assessment of Working Capital Requirements.
6. Other Financial Aspects.
7. Economic and Social Variables.

1. **General Information:** To begin with, some information of general nature should be provided. The following ate some such aspects:
   (a) **Bio-Data of Promoters**
   - Name and address of the entrepreneur.
   - The qualifications, experience and other capabilities of the entrepreneur.
   - If there are partners, state the characteristics of all the partners individually.

(b) **Industry Profile:** A little reference of analysis of industry to, which the project belongs, e.g., past performance, present status, the way it is organised, the problems it faces, etc.

(c) **Constitution and Organisation**

- The constitution and the organisational structure of the enterprise. In case of a partnership firm, whether it is registered with the Registrar of Firms.
- Whether a Registration Certificate from the Directorate of Industries/ District Industries Centre has been obtained or will be applied later on.

(d) **Product Details:** The utility of the product and the range of products to be manufactured. One could even provide the product designs/drawings alongwith and made a mention of the advantages the proposed product offers over its substitutes.

2. **Project Description:** A brief description of the project covering the following aspects should be given in the project report.

(a) **Site:** Location (town, street, number etc.) whether owned or leasehold land; whether the site is in approved industrial area? Is it suitable to the type of enterprise being planned? The open/covered area availability needed should be mentioned. If the location is in a residential area then the copy of No Objection Certificate from the Municipal authorities should be attached.

(b) **Physical Infrastructure:** Availability of physical infrastructure consisting of the following items:

(i) **Raw Material:** Whether imported raw material is also required? If so whether the licence has been obtained. Which are the sources of raw material and what is the probability of getting it on a continuous basis at fair prices?

(ii) **Skilled Labour:** Whether skilled labour is available in that area? If not, what arrangements have been made to train the labour in various skills?

(c) **Utilities**

(i) **Power:** Inadequate supply of electricity or its high unit cost in an area may become a major constraint in running a project. The project report should contain the information regarding the power requirements, the load sanctioned, stability of supply of power and the price at different consumption levels.

(ii) **Fuel:** Whether other fuel items like coal, coke, oil or gas, are required and if yes, then state their avail ability position.

(iii) **Water:** Water is an important factor for projects like brewery, tannery, ice plant, soft drinks and chemicals. The source and the quality of water in such cases should be clearly stated.

(d) **Pollution Control:** Most industrial plants produce waste material or emissions that may create significant problems. The emission may be of various types like (i) gaseous (smoke, fumes, etc.) (ii) physical (noise,.heat, vibration, etc.) or (iii) liquid or solid discharge through pumps and sewers. State clearly the aspects like scope of dumps, sewage system and sewage treatment plant.

(e) **Communication System:** Availability of communication facilities, e.g., telephone, telex etc. should be stated in. the report.

(f) **Transport Facilities:** The distances over which the basic material inputs will have to be transported and the available as well as potential means of transportation should be stated together with expected bottlenecks, if any.

Notes

(g) **Other Common Facilities:** Availability of facilities like machine shops, welding shops and electrical repair shops, etc.

(h) **Manufacturing Process:** The details of production and the process involved should be clearly stated. Also state the period of conversion from raw material into finished goods. A process flow chart should be presented.

(i) **List of machinery and Equipment:** A complete list of items of machinery and other equipment indicating their type, size and cost should be furnished. Sources of supply of capital equipment and the construction services should also be given. Check machinery/ equipment for each of the above stated processes is ensured. If not, explain how such processes will be get done.

(j) **Capacity of the Plant:** The installed licensed capacity should be stated.

Also state whether the unit will run on single, double or triple shift basis.

(k) **Technology Selected:** Is it up-to-date and appropriate? Which other units are using the same technology and with what results? How is required know how proposed to be arranged?

(l) **Balancing of Plant:** While stating the stages of production, also state whether the capacity of various plants at different stages of production is sufficient. Balancing equipment required at a later stage and the consequent increase in capacity should be assessed.

(m) **Quality Control/Testing and Inspection:** Whether some system has been designed to check the quality of products on a continuous basis? Obtaining quality marks like ISI, Agmark help in creating confidence among consumers if there is a probability of getting them for the products, the fact should be included in the project report.

(n) **Research and Development:** Besides the quality control, wether any cell to study improvement of quality is proposed to be formed in the enterprise?

3. **Market Potential:** The following aspects relating to market potential should normally be covered in the project report:

(a) **Demand and Supply Position:** State the data regarding total expected demand of the product and present supply position. How-much of this gap will be filled up by the proposed unit?

(b) **Price Expected to be Realised:** An estimate of the price expected should be furnished to assess the margin of profit. A comparative statement of competitor's selling price would be helpful.

(c) **Marketing Strategy:** What strategy for selling the products is proposed to be followed? Whether any arrangements have been made with reputed suppliers and distributors for lifting the production? Sometimes, particularly in electrical goods, owners of reputed brands may enter into contract to lift the entire production and sell it later after putting their trade mark on it.

(d) **After-Sales Service:** In some items it is very vital. Even due to a loose screw or snapping of a wire, the customer may find the instrument either not working or working improperly and without after-sales service. Due to this, the product gets a bad name. Normally it has been found that money spent on after -sales service by a manufacturer is repaid many times over the long run.

(e) **Seasonality Factor:** Whether the product has seasonal fluctuations in sales? If so, the arrangements made for warehousing or stocking of the goods in off-season should be stated.

(f) **Transportation:** Whether the unit will depend for the transportation of goods on public carrier or will it like to own its own transport? If own transport is needed, state the probable cost and the amount of assistance required.

4. **Capital Costs and Sources of Finance:** An estimate of the various components of capital items required by the unit should be given in the report These components may be the following:
   - Land and building
   - Plant and machinery
   - installation costs
   - Other miscellaneous assets like furniture/fixtures, vehicles, tools, dies, jigs, fixtures, patterns, types etc.
   - Preliminary and preoperative expenses.
   - Contingency cushion against price rise/unforseen expenses:
   - Margin for working capital.

   Besides the cost factors, the report should includes probable sources of finance. These sources of funds should equal the cost of a project as otherwise the project cannot be set-up in full. The resources would include the owner's funds together with loans and deposits raised as well as the limits expected from financial institutions/banks.

   The estimation of funds for the cost factors involved should be realistic and correct. Many units run into serious financial problems because of inadequate estimate of funds requirement.

5. **Assessment of Working Capital, Requirements:** Planning for working capital requirements is equally crucial for an entrepreneur. While estimating the capital costs, margin for working capital has taken into account. Any unit will be able to function only when adequate working capital requirements have been made and shown along with the total cost of the project.

   Sometime back formats for working capital assessment has been designed for limits up to ₹ 50,000, for limits between ₹ 50,000 and ₹ 2 lakhs and above ₹ 2 lakhs. As such if the entrepreneurs present their estimates in those prescribed formats, it will save time and energy for-them as well as for the baker.

   It has been generally noticed that the entrepreneurs present the working capital requirements in their own way which is ultimately recasted by the banker. This wastes time and creates problems. Hence, if they project their requirements in the prescribed way, it will minimise objections from the banker's side.

6. **Other Financial Aspects:** One of the objectives of setting-up a project is to earn a livelihood. Besides the project set-up must be able to retrieve the investments made within its life cycle. This would be possible only if the products taken up for production are adequately profitable. This would require preparation of a projected Profit & Loss Account which would indicate likely sales revenue, cost of production, allied cost and profit. These estimates especially the likely sales revenue, should be made on a realistic basis. A projected Balance Sheet and Cash Flow Statement would be have to prepared to indicate financial position and requirements at various stages of the project. After all the smooth functioning of the unit necessitates availability of adequate funds for various commitments.

   Next the Break-Even Analysis must be presented. Break-even point is the level of production/ sales where the industrial enterprise shall make no profit no loses it will just break-even. This facilitates knowing the gestation period and the likely moratorium required for repayment of loans.

Break-even point (BEP)

Where, F = Fixed Costs

S = Sales Projected

V = Variable Costs

Notes

The break-even point thus calculated will show at what percentage of projected sales the unit will break-even.

It is also a good idea of calculate and indicate the following ratios

1. Profitability Ratio = $\frac{\text{Net Profits}}{\text{Sales}} \times 100$ Sales

2. Return on Investment = $\frac{\text{Net Profits}}{\text{Capital Employed}} \times 100$

3. Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$ Equity

4. Debt Service Coverage ratio = $\frac{\text{Net Profit after tax + Depreciation + Interest for one year}}{\text{Instalments + interest (for one year)}}$

7. **Economic and Social Variables:** What will be the abatment costs i.e., costs for controlling the environmental damage (e.g., pollution)? The abatment cost will constitute the value of the additional engineering and technology needed for treating the effluents -and emissions.

   Whether the project will have some socioeconomic benefits, of which the following are a few examples:

   (a) ***Employment Generating:*** The number of persons proposed to be employed vis-a-vis employment situation of that area may be mentioned.

   (b) ***Import Substitution:*** The manner in which it is planned to be achieved and the amount of benefit expected may be mentioned.

   (c) ***Ancillarisation:*** Whether the unit will need sub-contracting functions of such type that ancillary industrial units may be promoted to meet them?

   (d) ***Exports:*** Quite likely the products proposed for manufacture may be exported in full or in part.

   (e) ***Local Resource Utilisation:*** Certain local resources which are presently a waste may be usefully utilised upon the project going on stream.

   (f) ***Development of the Area:*** How the establishment of the unit will bring on overall development in the area of its operation ?

8. **Project Implementation Schedule:** Preferably a PERT/CPM chart can be appended to the project report. If this is not feasible then in a tabular form, likely dates of completion of the following activities can be mentioned.

   - Acquisition of land Installation of plant/machinery
   - Registration of the unit Recruitment of workers
   - Bank loans Training of workers
   - Construction of building Ordering raw materials
   - Power connection Procurement of raw materials
   - Ordering plant/machinery Trial run
   - Supply of plant/machinery Commercial production

9. **Plant Layout:** If possible, a copy of the plant layout can also be furnished in the project report. This will assist determining sufficiency of area for present and future expansion programmers.

SPECIMEN OF A PROJECT REPORT

Notes

Look at the following illustrative project report of a manufacturing unit, it will help you understand how to prepare a project report.

A. PRODUCT DESCRIPTION

B. PRODUCTION AND GENERAL EVALUATION OF PROSPECTS;

C. MARKET ASPECTS

1. Users:
2. Sales Channels & Methods
3. Geographical Extent to Market.
4. Competitive Situation:
   (a) Domestic Market
   (b) Export Market
5. Market needed for plant described

D. PRODUCTION REQUIREMENT:

1. Annual Capacity (One/Two/Three-Shift Operation)
2. Capital Requirements

   Land & Buildings on rent (Mention value, if owned) Equipment, furniture and fittings Working capital
3. Total capital which the entrepreneur would needed for the whole project provided he uses agencies planned by the Government for financial accommodation.
   (i) Own
   (ii) Own Borrowings
4. Expected net profit per annum

E. CAPITAL REQUIREMENTS

1. Fixed assets & working capital
   (a) Land (.........sq. meters) and ₹

   Building (...........sq. meters), on rent at ₹ .... per annum
   (b) Equipments:
      (i) Production Equipment (List down in an appendix, giving values, etc., of each machine separately)
      (ii) Other Tools & Equipment
      (iii) Furniture and Fittings
   (c) Working Capital

[This would be calculated keeping in view the periods in which capital on an average in various forms, i.e. manufactured goods, semi- manufactured goods, raw material etc., would remain locked up. Often you may calculate it at 3 months requirement level; unless the situation (line of industry) warrants otherwise.]

Total

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II. Raw Material & Allied Supplies (Annual)

Description	Qty.	Rate	Annual Requirements
1.			
2.			
3.			
4.			
5. Power, Fuel & water			
6. Maintenance & Allied Supplies			
7. Other Supplies			
			Total

III. Manpower (Annual)

Description	No.	Rate (₹) per month	Actual Cost (₹)
Manager			
Foreman			
Supervisors			
Skilled Workers			
Semi-Skilled Workers			
Unskilled Workers			
Office Staff			
Others			
			Total

IV. Other Costs (Annual)

(a) Depreciation on equipment, furniture & fittings......annum

(b) Interest on capital (fixed and working.....per annum on average)

(c) Administrative Costs

(d) Sales cost (including sales commission, advertisement, etc.)

(e) Provision for discount, bad debts and miscellaneous contingencies

(f) Training costs.

F. TOTAL ANNUAL COSTS, SALES REVENUE AND NET PROFITS

(a) Annual Costs

- (i) Rent for Land & Buildings
- (ii) Raw Materials & Allied Supplies
- (iii) Manpower
- (iv) Other Costs

(b) Annual Sales Revenue

(c) Expected Annual Net Profit (b-a)

(d) % Profit on Own Capital

(e) % Profit on Total Annual Sales Turnover

(f) % on Total Investment

5.17 Planning Commission's Guidelines For Formulating A Project Report

Notes

In order to process investment proposals and arrive at investment decisions, the Planning Commission of India has also issued some guidelines for preparing/formulating realistic industrial projects. So far as feasibility report is concerned, it lies in between the project formulating stage and the appraisal and sanction stage. The project formulation stage involves the identification of investment options by the enterprise and in consultation with the Administrative Ministry, the Planning Commission and other concerned authorities.

Realising the usefulness of these guidelines, these guidelines are presented in a summarised manner as following:

1. **General Information:** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should be given, i.e., the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should also contain information about the enterprise submitting the feasibility report.
2. **Preliminary Analysis of Alternatives:** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from the projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and level of production actually attained, a list of all projects for which letters of intents/licenses have been issued arid a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project as well as its implications should also be looked into. An account of the foreign exchange requirement should also be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-a-vis return should be presented.
3. **Project Description:** The feasibility should provide a brief description of the technology/process chosen for the project. Information relevant to determining optimality of the locations chosen should also be included. To assist in the assessment of the locations chosen should be included. To assist in the assessment of the environmental effects of project, every feasibility report must present the information on specific points, i.e., population, water, air, land, flora and fauna, effects arising out of project's pollution, other environmental discretions etc. The report should contain a list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transportation costs, activity- wise phasing of construction and factors affecting it.

   Market Plan it should contain the following items

   (a) Data on the marketing plan.

   (b) Demand and prospective supply in each of the areas to be served.

   The method and data used for main estimates of domestic supply and selection of the market areas should be resented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.
5. **Capital Requirements and Costs:** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
6. **Operating Requirements and Costs:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items

Notes

of operating cost should be collected; operating costs relate to the cost of raw materials and intermediates, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

7. **Financial Analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A proforma Balance Sheet' for the project data should be presented. Depreciation should be allowed for on the basis of specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity anlaysis should also be presented. The report must analysis the sensitivity of the rate of return of change in the the level and pattern of product prices.

8. **Economic Analysis:** Social profitability analysis needs some adjustment in the data relating to the costs and returns to the enterprise. One important type of investment involves a correction in input and costs, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified, they should be analysed and their importance emphasized.

9. **Miscellaneous Aspects:** The preceding three areas are deemed appropriate to almost every new small enterprise. Notwithstanding, depending upon the size of the operation and peculiarities of a particular project, other items may be consider important to be applied out in the project report. To mention, probable use of minicomputers or other electronic data processing services, cash flow statements, method of accounting etc., may be of great use in some small enterprises.

5.18 Project Appraisal

Project appraisal means the assessment of a project. It is critical and analytical evaluation of the project from different angles. While appraising a project, technical, commercial, economic, ecological, social and managerial aspects are taken into consideration. Project appraisal is usually done by a financial, institution which besides making an anlaysis of costs and benefits of a proposed project assesses the project from the various aspects of an investment proposition before extending finance. Project appraisal is, therefore, a process whereby a leading financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision and is aimed at determining the viability of a project and sometimes, also in modifying its scone and content so as to improve its viability.

A project involves employment of scarce resources. Hence, the entrepreneur has to appraise various projects before allocating the scarce resources for a project. First a project has to be appraised from economic aspects. The economic aspects of appraisal include production of goods or services, generation of additional revenue, employment of labour, better rewards for the owners of capital, etc. A good organisation is required for the implementation of the project. An entrepreneur usually has three types of organisation to fall upon: sole trade proprietorship, partnership and joint stock companies. The type of organisation suitable for the project has to be setup. The financial institutions have to take special care with regard to the managerial aspects of the project. The management should be competent and efficient, otherwise a good project may fail. Technical appraisal includes the location and site of the project the technology used, technical collaboration if any, capacity utilization, plant layout, project design etc. The financial appraisal should ensure that the projects has a sound financial base. Analysis of cost, pricing, availability band utilization of funds, income and expenditure and fair return on investments are the areas to be covered under financial appraisal. Commercial/marketing aspects of appraisal are concerned with potential demand for the product/service, quality of product/service, price, design, marketing channels etc. Ecological and social aspects of a project have assumed much importance today. The project should be eco-friendly and should aim at society's well-being.

In short, a financial institution requires a detailed evaluation of the feasibility from the point of view of :

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1. Managerial Competence.
2. Technical Feasibility
3. Market Analysis.
4. Economic Viability
5. Financial Viability.

1. **Managerial Competence** Successful entrepreneurs are found to be possessing managerial and entrepreneurial traits. Funding agencies would therefore, like to find out whether the individual interested in setting up the venture possesses needed managerial traits.

   A project report should contain information such as family background, educational qualifications, past experience of service, business or industry, interest in other firms and innovative ideas of promoters so as to enable financial institutions to assess managerial capabilities of the individual. It is not necessary that entrepreneur should possess all managerial traits and perform all the functions himself. He should either be in a position to perform all such functions himself or should be competent and resourceful enough to hire and use the required managerial resources. Project report, should therefore, mention about the managerial structure of the enterprise.

   It is very difficult indeed to evaluate managerial and entrepreneurial capabilities of an individual. Even if the promoter himself wants to evaluate his capabilities the evaluation may not be very correct. It is likely to happen because of the fact that the sense of self-esteem is prevalent in every individual and it inhibits proper self-assessment.

2. **Technical Feasibility:** The technical feasibility of the proposal/project the item can be sold at a competitive price in relation to a similar quality product. For example, hand operated fan at cheaper cost will be economically feasible but technically unsound. The use of solar energy may be technically viable but it is not economically feasible yet because the experiment on this line has not been finalised.

   Technical appraisal deals with the following components:

   (a) Location of the unit.
   (b) Size of the plant.
   (c) Process of Manufacture.
   (d) Factory layout
   (e) Personnel.
   (f) Availability and cost of raw material.
   (g) Power and water, facilities.
   (h) Technological viability in the application of the finished product.

3. **Market Analysis:** The success of project depends on how it is able to sell the product/service in the market. This is because marketing is the only activity which produces revenue while all other activities incur expenditure. Therefore, the product/service should be marketable. The supply and demand for the product/service have to be estimated and see whether there is any market opportunity. A detailed market analysis should be conducted covering market opportunity and strategy for converting the opportunity into a reality. It is, therefore, suggested that the report should contain the following information:

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- The size and composition of the present demand.
- Market segment (s) identified for the proposed venture (The market segmentation may be done on the basis of income, age and sex of consumers, geography of the area, etc.)
- Short and long- term demand projection of the overall market and of the segment(s) identified for the proposed project.
- The market penetration that the proposed unit is expected to achieve over the, projected period. This may be planned in view of the increasing national and international competition and changing need of the consumers.
- Broad pricing structure on the basis of which future demand has been made and market penetration ratio has been calculated.
- The strategy of marketing in the target markets.

4. **Economic Viability:** Economic viability is an important criteria for evaluating a project. Whatever may be the motivation in starting a project from the point of view of the promoters, it shall be necessary that the operations quantified on a year to year basis should generate sufficient profits. A project without adequate profits or which is likely to incur losses, could not be classified as commercially viable. Evaluation of economic viability can be carried out through projection of profitability worked out for a period ranging from three to ten years. In case of financial applications, such projections should be carried out for a period covering the term of the loan to be negotiated with banks and financial institutions. In any case, the profitability of a project should be established on a long-term basis, keeping in view a spread of five years after a reasonable level of capacity utilization is achieved.

A Projected Profitability Statement has to be prepared by taking into account-capacity utilization and all costs, it shall be necessary to proceed further and calculate certain ratios to evaluate the economic viability of the project. Some of the ratios are debt service coverage ratio, pay back period, average rate of return, net present value, break-even sales and internal rate of return. The format of the. Profitability Statement is given below:

Projected Profitability, Statement

	₹ in Lakhs
	Years
	1 2 3 4 5 6 7 8 9 10
Production during the year - Value	
- Quantity	
Utilisation of installed capacity - %	
A. Sales	
(1) Sales including all miscellaneous receipts.	
(2) Less Excise	
(3) Net Sales (a)	
B. Cost of Production	
(4) Raw materials consumed	
(5) Power and fuel	
(6) Direct labour and wages	
(7) Consumable Stores	
(8) Repairs and maintenance	

(9) Other manufacturing expenses

(10) Depreciation

Total (Cost of production) (b)

(11) And Opening Stock in process and finished goods.

(12) Deduct Closing Stock in process and finished good

C. Cost of Sales (c)

D. Gross Profit (a-c)

E. Interest

(i) On term loan from Institutions and Banks

(ii) On Working capital loans

(iii) On other borrowings

F. Selling, General and Administrative Expenses

G. Profit Before Taxation

[D-(E+F)]

H. Provision For Taxes

L. Net Profit (G - H)

J. Depreciation Added Back

K. Net cash Accruals

L. Repayment Obligations

(i) Towards Institutions and Banks

(ii) Towards Others

TOTAL REPAYMENT

M. Debt/Service Ratio L: K

N. Contribution A – [(4+6+7)]

O. Break-even Value of Sales

5. **Financial Viability:** The appraisal of the financial aspects involves scrutiny of:

(a) Cost of the project and means of financing.

(b) Cash flow estimates.

(c) Project balance sheets.

(a) ***Cost of the Project and Means of Financing:*** The financial plan for meeting the cost of the project depends on how accurately the cost is estimated. The estimate will have to provide for:

(i) Land and site development

(ii) Plant and machinery.

(iii) Buildings.

(iv) Technical -know how fees.

(v) Miscellaneous fixed assets.

(vi) Preliminary expenses.

(vii) Pre-operative expenses.

(viii) Provision for contingencies.

(ix) Margin money for working capital.

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Cost of the project having been accurately estimated, sources of finance should be identified. This is in the form of own funds and borrowed funds. Borrowed funds also referred to-as debt consists of term loans, deferred payment guarantees, public deposits, debentures etc. The debt-equity proportion of 2:1 should be generally adhered to.

(b) ***Cash Flow Estimates:*** A cash flow statement is a projection of future sources of cash and their application. In the cash flow statement, profit is the most important source of inflow and profit depends on how accurately the cost of production and sales estimated have been arrived at. Profit that is considered as an inflow could increase or decrease-depending on management policies followed in the borrowing units. This is referred to as personal judgment concept.

For example, if there is a change in the method of inventory valuation, the profit would rise or fall. This does not indicate a corresponding increase or decrease in cash flows.

Debt Service Coverage Ratio (DSCR): The DSCR establishes the relationship between net profits and the repayment of term loan and interest thereon. It is calculated as:

$$\frac{\text{Net Profit after Tax + Interest on term Loan + Depreciation}}{\text{Term Loan Instalment + Interest on Term Loan}}$$

A ratio of 2:1 is considered satisfactory, indicating that even if only, 50% of the net profits are earned, still repayment of installments of term loan and interest would not pose a problem.

(c) ***Projected Balance Sheets:*** Projected balance sheets are to be prepared for. each of the years covering the entire period of the term loan. The projected balance sheets report the effect of the plan of operations on the assets, liabilities and capital of the business unit. In analysing the projected balance sheets, attention is to be focussed on the movement of funds and also analysis its impact of the term loan granted by the financial institution on the assets and liabilities of the business unit.

A project should comply with all the above broad feasibility/viability criteria. However a project report need for necessarily cover all the above aspects. The depth and coverage of the above feasibility aspects could be planned in accordance with the purpose of preparation of the report and the size of investment in the project. Normally, discounted cash flow and calculation of economic rate of return are avoided in case of small scale projects. The detailed market survey is required only when the products to be manufactured have fierce competition. Therefore, prior to preparation of project report one need to consider the purpose of project report and the cost of its preparation. In case of a tiny project an expenditure of even two thousand rupees on preparation of project report may look quite high. For such projects one should attempt to prepare a project report covering, entrepreneurial capabilities, demand for the product(s), and managerial, technical and financial viability. It may not cost too much to the entrepreneur and at the same time it will serve the desired purpose. In case of bigger projects the project report should contain all those details which have been discussed in this lesson.

A project report is not a document covering precise details especially in respect of financial and economic viability. It is essentially a projection of performances based on certain assumptions. Most of the long-term projections have some weaknesses and suffer from limitations. Similarly, project report may have certain limitations and should be used carefully.

5.19 Common Errors In Project Formulation

Project formulation is as important as not so easy. However, the entrepreneurs often make errors while formulating project reports or business plans.

The errors widely noticed in project formulation are:

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1. **Product Selection:** It is noticed that some entrepreneurs commit mistakes by selecting a wrong product for their enterprises. They select the product without giving due attention to product for their enterprises. They select the product without giving due attention to product related other aspects such as size of the product markets, its future demand, competitive position, lifecycle, availability of required labour, raw material and technology. Hence, when you are selecting a product, take a comprehensive View.
2. **Capacity Utilisation Estimates:** The entrepreneurs usually make overoptimisitc estimates of capacity utilization. Their estimates are based on a completely false premises. The estimates are made in complete disregard of present-enterprise performance, prevailing market conditions, competitive atmosphere, the technical snags, etc. A business plan formulated as such falls prey to financial jugglery. Hence, avoid such temptations while estimating capacity utilization for your enterprise.
3. **Market Study:** Product production is ultimately meant for eventually sale. Hence, market study of the product assumes importance. Market study continues to be a grey area. But, there are some entrepreneurs who pass by this component of their business plan completely. Based on their nebulous ideas and scanty and scattered information on demand and supply of their proposed product, they conclude that market is just there waiting to be tapped. This is a wrong attitudinal block. Avoid it.
4. **Technology Selection:** The requirement for technology differs from product to product depending upon the nature of products. Swayed by the reported profit margins, the entrepreneurs sometimes plan for a technology not possible to set up within limited financial resources. Thus, in the absence of technological feasibility, enterprise is foredoomed to failure. Hence, make sure your technological feasibility.
5. **Location Selection:** The entrepreneur often makes two types, of errors while selecting location for their enterprises. First, they are completely swayed by the Government offer of financial incentives and concessions to establish industries in a particular location. This becomes their sole and overriding concern completely disregarding other factors like market proximity, availability of raw materials, manpower and infrastrutural facilities. Second, the entrepreneurs select a location for their enterprises merely because it is their home town or they own ancestral land there which is, however, to an appropriate location. Make sure you do not fall prey to such temptations.
6. **Selection of Ownership Form:** Many enterprises fail merely because the ownership form of enterprises is not suitable. Hence, select a suitable form of ownership taking a comprehensive view of the factors affecting the selection of a form.

The project report/business plan is a blue-print of all those activities that an entrepreneur proposes to engage in. It is not only a guide frost for business' activities, but also an essential exercise for developing cost and benefit estimates resources planning and feasibility testing of the proposed business activity. The project report is required for purposes of obtaining funds from the financial institutions and banks. The project report for an entrepreneur is what a guide map is for a traveller. In order to complete the project within a stipulated period and cost, all activities involved in the project are scheduled in a sequential relationship called network or scheduling of activities. The common errors made by the entrepreneurs while formulating project reports/ business plans are also highlighted.

5.20 Selection of Factory Location

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One of the most important decisions which must be made when a new enterprise is to be established is the choice of its location. There may be many desirable locations from which to make a selections, but in all probability there will be a few sites which are more suitable than the others. In most instances, the three major factors that enter directly into location selection - raw materials, transportation facilities, and qualified labour-must be present in the right combination. In other instances, nearness to other plants, supply of cheap fuel, power, and water, the attitude of local government may be more important. It is impossible to rank these factors in order of importance, since for one type of enterprise nearness to raw materials may be the most important consideration, and for another type availability of transportation facilities may take precedence. The best location is the one that provides a good balance among all these factors.

The process of selecting a suitable location for an enterprise involves the following three different steps:

First Step: This step relates to selection of the region in which the enterprise is to be suited. As per this step decision is to be taken about the State or District where the organisation is to be located. For instance, with reference to India, the State in which the plant is to be located may be Delhi, Punjab, West Bengal, Rajasthan, etc.

Second Step: After the selection of the region, the decision relating to a, particular community, in which the plant is to be located, is to be taken by the entrepreneur. For example, if according to the first step, Delhi is selected, community may refer to any part of Delhi, East, West, North or Sourth.

Third Step: This step pertains to the selection of the plant site where the pant is to be situated. Continuing with the example of Delhi as region and North

Delhi as community, the factory may be set up in Narela or industrial area of Wazirpur. We have to identify exact plot number, where the plant is to be installed at this stage.

Since the selection of location of business enterprise involves the above three stages, it is called a "Three-Step Process". The above mentioned three different aspects of a location problem are not unrelated phases which can be completely divorced from each other and treated separately. In fact, they are related to each other; the presence or absence of suitable sites influences the selection of a community; and the existence of suitable communities in various regions affects region comparisons. Thus, the locational problem may be approached by comparing regions, communities, and sites in that order, and as long as the analyst is constantly aware of the interdependence of the three levels of study, the results are likely to be quite satisfactory.

Theories of Location of Business Enterprises

Proper location of any business enterprise is essential for its success. The cost of production may differ from location to location and, therefore, it is necessary to find out a site where the cost of production is the lowest. In deciding about the location of an enterprise, the theories developed by economists may be of help to the entrepreneurs. The various theories of industrial location are discussed below:

1. **Traditional Approach of Classical Economists** Classical economists like Adam Smith, J. S. Mill, Alfred Marshall, etc. were the first who thought about the problem of industrial location. However, they did not make any significant contribution in this respect. They pointed out that the selection of location was based on factors like availability of raw material, personal choice due to local loyalty of the entrepreneur market and skilled labour. The analysis of these economists was based OR empirical studies and scientific treatment of the problem was lacking. They could not evolve any persuasive theory of location.

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2. **Weber's Theory:** Prof. Alfred Weber's original work was published in German language in 1909; but it became popular when it was translated into English in 1929. His method of treatment is purely deductive and the entire theory is based on the study of general factors which pull an industry towards different geographical locations.

   Assumptions: Weber's theory is based on the following assumptions:

   (i) The centres of consumption are fixed.

   (ii) The cost of raw materials, inspite of uneven distribution of deposits of raw materials, is same at all places.

   (iii) The centres of labour supply are fixed and have unlimited supplies of labour at constant cost.

   (iv) Transportation costs are determined by weight to be transported and distance to be covered. Impliedly, transportation-rates are equal throughout the country and there is an absolutely even plane.

Weber classified the factors influencing the location into two broad categories, viz., (a) *primary factors* which influence the regional distribution of industry, and (b) *secondary factors* which determine the redistribution of industries within a particular region by the process of agglomeration and deglomeration.

1. **Primary Factors:** These factors influence the location of plants over different regions. Weber identified cost of land and building, machines and other fixed assets, cost of materials, power and fuel, cost of labour, cost of transportation, interest and depreciation charges as the factors that cause regional distribution of industries. Costs of land and buildings have an insignificant influence on location as their proportion to other inputs is very small. Differences in the cost of raw materials are largely due to varying distances over which they are to be carried and may, therefore, be treated as a form of transport cost. Depreciation and interest costs are independent of geographical location and have no significant bearing on industrial location: Therefore, Weber developed his theory on the basis of two regional factors, namely (a) transportation costs; and (b) labour costs.

   (a) Transportation costs: An enterprise has to incur transportation cost to carry raw material to the plant and to carry the finished product to the market. A plant tends to be located at a site where the total cost of transportation of materials and production is minimum. According to Weber, transportation costs are determined by two factors, namely the weight to be transported and the distance to be covered. The weight of materials depends upon the nature of raw materials and the type of transformation in the process of production. Weber classified raw materials in two categories- ubiquitous materials and localised materials. *Ubiquitous materials* are available every where e.g., water, sand, clay, brick etc., while localised materials are confined to particular regions e.g. coal, iron-ore, cotton, cement etc. *Localised materials,* exercise considerable influence on industrial location but ubiquitous materials are insignificant.

   However, the influence of localised materials varies according to their behaviour in the process of production. On this basis localised materials may be further sub-divided into two categories, namely pure and gross materials, Pure or non-weight losing materials are those which do not lose much of their weight in the process of production e.g. cotton, wool, iron-ore. Such materials do, not pull plants to their place of deposit because the cost of transportation remains the same for both raw materials and finished products. Gross or weight- losing materials impart a small part or none of their weight to the finished product, e.g. sugarcane and coal. Such materials attract production towards places of their deposits as the weight of materials to be transported in many times more than the weight of the finished product. Therefore, industries like

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sugar which use gross raw materials tend to be located rear the source of materials e.g. sugarcane farms.

On the basis of above reasoning, Weber developed a mathematical formula to measure the relative pull of materials "and the market on industrial location. He called this ratio 'material index' which 'can be calculated as follows:'

$$\text{Material Index} = \frac{\text{Weight of localisd material}}{\text{Weight of the finsihed product}}$$

Industries with a high material index more than one tend to be located near the source of materials while those with a low materials index less than one are attracted towards the market. According to Weber "the material index measures the total weight to be moved in a locational figure per unit of product and is termed as 'locational weight' of the repective industry. All industries whose material index is not greater than one and whose 'locational weight', therefore is not greater than two life at the place of consumption". A plant may be attracted towards the centre of consumption when ubiquitous materials add substantially to the' weight of the product.

(b) **Labour costs:** Another primary factor which influences the location of industries is the availability of cheap labour. A plant may deviate from the point of least transportation cost when the savings in labour cost are greater than the additional cost of transportation at the new centre. Points of equal deviation from the place of minimum transportation cost can be measured by *'Isodapanes'* Isodapanes represent points of equal transportation cost including assembling cost of materials and distribution cost of finished product. One of these points may touch a cheaper labour centre and may just correspond with the economies of labour on the one hand and the additional transportation cost on the other. It is called the critical isodapane. If the actual labour centre lies within the area of such a critical isodapane, then migration of the industry takes place as it will result in greater economy in labour cost than the extra transportation cost involved.

The pull of labour depends upon labour cost per unit of product and location weight. Labour. cost per unit of finished product is measured by *labour cost* index i.e., to the weight of the product. Location weight, as stated above, is the weight to the transported during the process of production. To measure the attracting power of labour, Weber gave the following formula:

$$\text{Labour Coefficient} = \frac{\text{Labour cost index}}{\text{Locational weight}}$$

Higher the labour coefficient, greater is the tendency for a plant to be located near the centre of cheap labour supply.

2. **Secondary Factors:** Deviation from the minimum transport advantage point or the optimum labour cost point also takes place due to the operation of secondary factors. The factors that cause either the concentration or the dispersal of industries are grouped under this head. The factors of concentration or *'agglomerative faptors'* as called by Weber include better facilities of banking credit, communication, insurance, transport, etc. The agglomerative factors are also known as 'external economies.

The factors that cause dispersal of industries are known as *'deglomerative factors'* as per Weber's theory. These factors are also known as 'external diseconomies'. The diseconomies' like rise in rents, rate, taxes, etc. high cost of labour, high cost of land, housing problems etc. accelerate the process of geographical dispersal of industries.

Weber also examined the possibility of mote than one site of location for an industry. If production consists of two or more processes and each one is carried out independently of others, it is possible to have a split in location of industry. Such location is profitable only when a material used in the first stage loses a substantial proportion of its weight in the first process of manufacture. In this case, the first process must be localised near the sources of raw materials, while the second and latter processes have no economic attraction to be associated, with the first. For example, in the paper industry, pulp is manufactured near the forests, i.e.; the sources of raw, materials and paper from the pulp is manufactured near the markets.

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Critical Appraisal of Weber's Theory: Weber's theory of industrial location has been criticised on the following grounds

(i) The theory is based on unconvincing, oversimplified, and impractical assumptions. *Firstly,* the assumption that there are fixed points of consumption does not accord well with the market conditions in a competitive structure. Austin, Robinson points out that, in reality, there is a widespread market served by competing producers. Consuming populations is usually scattered over the whole country and the consuning centres may be shifting with a shift in industrial population. *Secondly,* his assumption with regard to transport cost is not realistic. He based the transport cost on weight and distance. However, in reality, the transport costs vary according to the type of transportation, the quality of goods to be transported, the topography and character of the region, etc. Thirdly, the fixed centres of cheap labour is a myth today. Labour has become considerably mobile and attracted towards the location of industries rather than the industries going towards the cheap labour. Moreover, the second assumption about labour: centres that each centre has unlimited supply of labour is even more objectionable because unlimited supply of labour cannot be envisaged at any centre.

(ii) Weber takes into consideration only two factors *viz.* transport and labour, and completely ignores so many other factors of location such as availability of fuel and power, water supply, climate, historical and political factors, taxation policy etc. which also influence, to a great extent, on the selection of the location.

(iii) The classification of material into ubiquitous-and fixed material is considered artificially by Austin Robinson. He points out that, in actual practice, materials are drawn from a large number of alternative fixed points and, therefore, the classification of materials into ubliquities and fixed materials appears to be artificial.

(iv) Weber's approach, as pointed out by S.R. Dennison is overburdened with technical considerations. Costs and prices which must form the basis of any such theory are not given proper treatment and the theory is full of technical coefficients. "As a matter of fact, the investigations of an economist ought to be based mainly on the considerations of costs and prices". Weber's analysis ignores all factors of costs and prices and this is the most important criticism of his de4uctive theory.

In spite of the above criticism, Weber's theory of location is an important milestone in economic history; it is first scientific attempt that provided systematic explanation for a complicated problem of the theory of location. It should, therefore be not discarded, in, toto; it needs modification by giving up the unrealistic assumptions and by making it more comprehensive.

3. **Sargant Florence Theory:** Prof. Sargant Florence evolved an inductive theory for explaining the causes of industrial location. He found that the problems of industrial location is more related to the distribution of occupied population of the country than to its geographical areas. His theory of location is based on two new concepts -location factor and co-efficient of localisation.

   (a). **Location Factor:** It is an index of the degree of concentration of an industry in a particular region. This index is calculated by taking the percentage of all workers in a

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particular industry found in a certain region and dividing it by the proportion in that particular region of the total industrial workers in the country. Where an industry is evenly distributed throughout the. country, the location factor for each region would be unity. If the industry is not evenly distributed, the location factor will be either above unity or below unity. Regions showing location factors above unity or below unity would indicate that such regions have a higher share or a lower share of the industry than what should have been the case. The calculation of location factor may be explain by an example given below:

Example 1

Total number of workers employed in all the industries in the country	10 lakhs
Total member of workers in textile industries	1 lakh
Total number of workers in Western region	4 lakhs
Total number of workers employed in textile industry in Western region	0.5 lakh

So Location Factor

$$\frac{\text{Percentage of workers in textile industry to all workers in that industry in the Western region}}{\text{Percentage of workers in the Western region to total industrial workers in the country}}$$

$$= \frac{\text{Labour cost index}}{\text{Locational weight}}$$

$$= \left(\frac{0.5 \text{ lakh}}{1 \text{ lakh}}\right) \times 100 \;\; >> \;\; \left(\frac{4 \text{ lakh}}{10 \text{ lakh}}\right) \times 100$$

$= 50 >> 40$

$= 1.25$

The location factor in this case is a bit higher than one which means that textile industry has higher share in that region i.e. there is greater concentration of textile industry in the Western region.

(b) **Coefficient of Localisation:** It indicates the tendency of a particular industry to concentrate or disperse anywhere in the country. .It can be obtained for an industry by dividing the positive or negative deviations of the regional proportion of workers in the particular industry from the corresponding regional proportion of workers in all industries by 100. Industries which are concentrated in certain region will have high co-efficient of localisation; and industries which are dispersed in different regions will have low co-efficient of location. By calculating the coefficients of locations for all industries, they can be divided into the categories of high, medium and low co-efficient industries. Accordingly, the locational significance of an industry can be shown and the problem of investigation can be made easier. A low co-efficient of localisation for a particular industry indicates that it can easily thrive in various regions. On the other hand, industries with high co-efficient of location have a tendency to get centralised in particular regions only. Thus, co-efficient of localisation showing the tendency towards concentration or dispersal is helpful in regional planning of industries in a country. The computation of coefficient of locations is illustrated below.

Example 2:

Total number of industrial workers in a country	10 lakhs
Total number of workers in the Southern region	3 lakhs
Total number of workers in the Eastern region	2 lakhs

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Total number of workers in the Western region	4 lakhs
Total number of workers in the Northern region	1 lakhs

Total number of workers in sugar industry are 2 lakhs, distributed in the four regions as follows

Southern	0.5 lakh
Eastern	0.25 lakh
Western	1 lakh
Northern	0.25 lakh

The computation of the coefficient of localisation is shown in the following table:

Regions	**Percentage of workers the region to all workers in the country**	**Regional percentage Deviations of workers in the sugar industry in the region to all workers in the textile industry**	
Southern	30	25	+5
Eastern	20	12.5	10
Western	40	50	10
Northern	10	12.5	-2.5
	Sum of plus deviations =	12.5	
	Co-efficient of location =	$\frac{12.5}{100}$ = 0.125	

The co-efficient of localisation in the above illustration is very low which implies that the industry can easily flourish in different regions and does not indicate signs of concentration.

Critical Appraisal of Florence's Theory: The inductive theory of location given by Prof. Florence has been criticised on the following grounds:

(i) The two statistical indices developed by Prof. Florence are just descriptive and not explanatory of prescriptive. "They explain the existing state of distribution of industries in a country. They cannot explain the reasons for a particular from of concentration or dispersal. They do not even clarify the question or a correct allocation of Industries among various regions.

(ii) The location factor, which is determined only on the basis of the. number of industrial workers working in an industrial area is an inadequate criterion of concentration. Critics argue that a better basis can be provided by the volume or value of output of industries in the area.

(iii) The co-efficient of localisation reflects the pattern of industrial distribution which may vary from country, to country. Thus, it is difficult to judge about the concentration of industries merely on the basis of the co-efficient of localisation. At best, it can have the verifiable value.

Inspite of the above criticisms, the indices developed by Prof. Florence play an important role in studying the locational dynamics in any country. They serve as invaluable guides for analysing the trends of industrial growth in a country.

4. **New Balanced Approach:** Balanced regional economic growth of a country is the need of the hour. To achieve the objective of balanced regional development, a realistic policy of locational planning based on comprehensive theory needs to be formulated. With regards to this, a significant contribution was made by Ohlin, Losch, Palander and others who evolved a theory of location on increasingly comprehensive basis. In their anlaysis, they

endeavoured to establish an interrelationship between factors like economic differences, cost differences, human differences, national characteristics and various political, geographical and transportation barriers. In fact, all locations are interdependent and mutually affect each other. Therefore, the study of locational dynamics should be based on broader economical social and strategic considerations rather than being dominated by limited economic considerations alone.

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5.21 Factors Affecting Industrial Location

As already discussed, the process of selection of a suitable location for an industrial enterprise involves these steps (1) selection of the broad region in which the plant is to be located; (2) choice of the community inside that region; and (3) decision about the specific site where the plant is to be situated. The factors affecting plant location are discussed as under:

(1) Factors Affecting Selection of Region

While making a choice of a suitable region for a proposed industrial enterprise, the following factors must be most searchingly considered with due regard to the nature of the industry:

1. **Availability of Raw Material:** In the selection of plant location, the availability of raw material is an important factor; because the cost of raw material forms, a substantial part of the total cost of production. The localised gross materials have got an important influence on the concentration of an industry. Ubiquities may not have major influence over it. Often a factory is situated near the source of raw materials which are weight-losing or gross or bulky or heavy in nature. For example, sugar industry in India is located in U.P. and Bihar where sugarcane is grown. Similarly, jute industry was attracted, near the source of its raw materials near Calcutta.
2. **Accessibility to the Market:** Since goods are manufactured with the object of selling them in the market, an easy access to the market becomes an important consideration in the choice of an industrial location. Industries whose products are costly to carry on account of fragility, perishability, or bulk are located in close proximity, to market. This tendency becomes more emphasized if the raw materials are less costly to transport or are derived from diverse sources, and lose little weight in the manufacturing process Evolution of new markets is an important factor. For example, jute industry has shown a dispersal tendency due to the creation of new markets in U.P., Bihar and Tamilnadu arising from the demand of bags for new industries like sugar, flour and cement.
3. **Availability of Labour:** Labour is probably the most important single factor influencing plant location. Industries in general and labour-intensive industries in particular, which need manual workers in large numbers, have a tendency to be locate in those areas where the supply of labour is easy and wages are low. However, recently labour has become mobile to a great extent and, therefore, it is available in most of the regions of the country. Further, with the growth of trade unions and after the awards of industrial tribunals, the wage-factor has lost much of its importance in determining location.

   Labour's attitude towards work and its contribution to productivity exert the major inflecting today. On the whole, industrial relations are more disturbed in some region than in others. The particularly hostile attitude of labour force in certain states or regions acts as an important deterrent to the setting up of industries there.
4. **Transport and Communication Facilities:** Transport facilities *i.e.* storage, handling and service facilities play an important role in the location of any manufacturing undertaking; as raw materials must be brought to the factory and the finished products must be despatched economically and without undue delay. In an some industries where raw materials form a

major item of cost, cheap and easy transport facilities become an important consideration. In others, where the raw materials are bulky and their transportation relatively costly, it would be an advantage to have the works located close to the source, of supply in order to facilitate transport activities and maintain the transportation charges, at their lowest possible level. That is why steel and iron works are to be found near coal and iron producing areas. Thus, an entrepreneur may try to establish the factory where the transportation cast may be the minimum but there may be deviations from this; because the point of minimum transport cost may not be the point of minimum production cost. However, today the increased flexibility and efficiency of modem forms of transport have enabled entrepreneurs to exercise a freer choice in the matter of location than in the past.

In general, for operating an industrial plant successfully, management must be informed on market situations as regards raw materials, finished goods, supplies and market prices. Up-to-date information can be had only when there are communication facilities, Here lies the importance of this factor in determining the plant location.

5. **Supply of Cheap Fuel, Power and Water:** The factor of cheap and easy supply of fuel and power must also enter into the question of the choice of site as the item reflects itself in the final cost of products. In the past coal had an unrivalled sway over the industrial growth in a country. At present, there are, however, several other sources of power, e.g., electricity, gas, oil and waterpower. As electric power can be carried to great distance from its sources, industries today have been somewhat free in choosing their locations throughout the country. Coal as source of power, has maintained position in those cases, where carbon content becomes necessary; but in other cases alternative sources of power are making rapid headway. However, it is the cost factor that decides the form of power as influences the location of industrial enterprises.

   The importance of water, varies from industry to industry. If it is used only for drinking and sanitary purposes, obviously, it is of little or no consideration. In many industries, however, such as steel, paper and chemicals, water is a highly important locational factor. For example, 65,000 gallons of water are required to produce a ton of steel and 2,00,000 gallons for a ton of viscose rayon. Many companies not only require large quantities of water but also need a relatively pure supply, both of which restrict location.

6. **Natural and Climatic Considerations:** The factors like the level of ground, the topography of a region, drainage facilities, disposal of waste products and climate, etc., may also affect location of a manufacturing enterprise. Extractive industries like coal, iron ore and bauxite are located within fairly narrow limits fixed by natural conditions. Climate also plays an important role. For example, dry climate is essential for flour milling industries etc. and therefore, they are located in Kanpur, Poona which do not have damp climate. Similarly, for cotton textile industry, humid climate is important; as under such climate the frequency of yarn breakage is low. However, the effect of climate has been modified to a great extent in many industries by artificial methods such as dehumidification, air-conditioning, etc. The. advantages of moist climate in spinning enjoyed by Bombay, for example, have been nullified by the artificial methods of humidification.

   Climate influence the efficiency of employees too. A cool invigorating climate attracts industries; because workers can work harder there. It is also congenial for managerial staff.

7. **Personal and Historical Consideration:** Sometimes enterprises are located at particular places on account of the personal preferences and prejudices of the entrepreneurs concerned. For instance, Henry Ford established automobile industry in Detroit because it was his home town. Lord Nuffield founded Morris Motors in Coerley, South-East of Oxford, because the school in which his father was educated happened to be for sale.

Notes

Similarly, industries grow in certain places on historical grounds. It is said that the cotton industry "first settled in Lancashire because the woollen industry was already there, foreigners were kindly received and Manchester was not a Corporation". In India, many industries were pioneered in the Presidency towns because it is there that the British settled first.

8. **Momentum of an Early Start:** When a few industries are set up in an area, transport facilities, particularly railway stations come up there, banks open branches, repairs and maintenance shops are opened and, even, townships grow. All these provide a momentum to the future establishment of. industries in the areas. For example, Durgapur Steel Plant may be tile .biggest industrial unit in Durgapur but many other industries have also been set up in wake of the establishment of the Steel Plant.

9. **Political and Strategic Considerations:** Recently, political and strategic considerations also have been influencing the selection of a region where the business is to be located. Lack of political stability in a particular state stands in the way of establishment of industrial enterprises and/or drives away those already established, as has happened in West Bengal, Punjab and Jammu and Kashmir.

   Strategic considerations are particularly important for'those industries which produce materials 'for war and products of national importance. Such industries are main targets of air-attack and, therefore, should be located at places which are relatively immune from air-attackers. For instance, India's aircraft factory is located in Bangalore and her main arsenal is situated in Jubbalpore; both the places are relatively safe from epemy invasion.

10. **Government Policy:** In planned economies like India, governments play an important role in location of industries. Such governments often encourage setting of industrial enterprises in the backward regions, by means of subsidies, tax-rebates, provision of easy finance, transport facilities, etc. This policy helps in achieving balance regional development throughout the country. Recently, many state governments in India are attracting industrial entrepreneurs, by offering them various incentives like, land and power at concessional rates, tax-rebates, etc. to speed up the tempo of industrialisation in their respective states.

11. **Financial Facilities:** Finance is the life-blood of any industrial enterprise. Therefore, the availability of adequate finance at cheaper rates influence the consideration about its location to some extent. However, the financial facilities are not likely to exercise much influence on location decision; because capital is highly mobile. Under certain special circumstances, this factor may become important. For instance, the Government of India encouraged special financial institutions like ICICI, IDBI, IFCI etc. to provide more funds at cheaper rates to under developed regions of the country so as to attract industries to those regions. With the same purpose, the nationalised commercial banks are also encouraged to open more branches in such areas.

12. **Miscellaneous Factors:** The decision about industrial location may be affected by numerous other factors which may not be reducible to economic terms in stick sense of the term. "Police and fire protection, recreational and social facilities of the community, schools and colleges for employees and their children, housing, trends of local land values, telephone service, and the nearness of complementary or service plants.sho1;lld all have a bearing on executive decisions". Anyone of these factors may assume dominating proportions in a particular case.

To-sum up, while selecting a region for the location of an industrial enterprise, besides the above mentioned factors, special care should be given to long-range forecasts of future operating needs and techniques; because locating a plant is a long run proposition. An anticipated expansion of the concern, diversification of the product, future market, shifts in raw materials etc. have a pronounced influence on locating an industrial enterprise. Although every long-range factor cannot be foreseen, wise planning dictates that every foreseeable change be included in the considerations at the time of locating an enterprise.

(2) Factors Affecting Selection of Community

After the selection of the most suitable general region, the selection of a community within that region is to be done. For this purpose, a community which fulfils the following conditions will be more suitable in determining the location of an industrial enterprise:

1. There should be adequate labour-supply both in quantitative and qualitative terms.
2. The prevailing wage-rates in the same industry should be reasonable; they should not be too high to make the manufacturing activities uneconomical.
3. The general attitude of the community towards industry must be co- operative. A community with a record of illegal strikes is likely to be a wrong selection.
4. The existence of other complementary or supplementary enterprise in the community with respect to raw materials, products, labour demands, etc. will be helpful to the 1.lew enterprise.
5. There should be absence of laws and ordinances having an adverse effect on operational efficiency and tax burden should be moderate.
6. The living conditions in the community should be favourable so that the employees at levels get proper social life.

Urban Vs. Rural Community

While selecting a particular community, an entrepreneur has to make a choice between urban and rural community. Both have their relative advantages as well as disadvantages which are give below:

Relative Advantages and Disadvantages of Urban Location

Advantages

(i) An urban location is well-connected with different modes of transport.
(ii) If offers excellent facilities for communication.
(iii) Power and water supplies are easily available.
(iv) Facilities for repairs and maintenance are better.
(v) The adequate supply of unskilled and skilled labour-force is available.
(vi) The allied and subsidiary industries are present in plenty.
(vii) There are better living conditions for all levels of employees.
(viii) Large local market for the products manufactured is available.
(ix) The services of experts are easily available.
(x) Financing institutions such as banks, underwriting houses and special financial institutions are nearby.

Disadvantages

(i) Cost of land and construction of building on it is high.
(ii) Land suitable for a large-scale unit is difficult to get and is usually, limited in area; if available.
(iii) Due to the high cost of living in urban area, labour wages are also high.

Notes

(iv) Local taxes and rents tend to increase making the costs of operation higher.

(v) Employee-employer relations are often tense.

(vi) Provision of housing accommodation for the staff proves very costly. (vii) Expansion of the industry because of high costs is seldom possible. (viii) There are many restrictions imposed by local municipality regarding disposal or affluent water, wastes etc.

Relative Advantages and Disadvantages of Rural Location or Sub-Urban

Location Advantages

(i) Land cost is low and is available in plenty for construction of building and also for expansion.

(ii) Labour costs are proportionately lower as compared to that of urban locations.

(iii) Employee-employer relations are more friendly and there are no union problems.

(iv) Taxes are low.

(v) Several governmental incentives may be available; because it wants the balanced development in all areas.

(vi) There is absence of undesirable municipal restrictions on the manufacturing units.

(vii) There is lower cost of living for the employees.

Disadvantages

(i) There is shortage of skilled labour and managerial personnel.

(ii) There is lack of transport and communication facilities.

(iii) Power is often not available.

(iv) Rural areas are far away from markets,

(v) The medical, educational and amusement facilities are not available.

(vi) It is difficult to get ancillary services.

(vii) There are difficulties in procurement of materials.

(3) Factors Affecting Selection of Site

Having selected a community in which the plant is to be located, the final decision concerns the choice of an exact site within the community. The following are the main considerations to be given in the selection of a site:

1. The size of the plot should be large enough not only to accommodate the present requirements but also for future expansion within the next one or two decade.
2. The load bearing capacity of the land of site should be sufficiently strong so that heavy building may be built. Facilities for water and power should be available.

   Similarly, facilities for sewage and effluent disposal must be available.
3. The site chosen should have easily approachable roads and rail links.
4. The initial cost of the land and its development costs also affect the decision relating to choice of site. Sometimes, low priced land may turn out to be very expensive; if heavy development costs are to be incurred.

Determination of Optimum Location

Selecting a location requires consideration of costs and revenues. Each location can be shown to have both fixed and variable costs associated with its use. The cost of land and buildings are considered fixed over relatively wide ranges of output, while labour, material transportation, and power charges are expected to vary with the output level. Naturally, some of the expense items for anyone location will be higher than j similar costs at other locations, while other expense items will be lower.

Notes

In addition to costs and revenue, the more intangible factors such as community attitudes, community facilities, employee housing, etc. must be either evaluated subjectively or given an estimated value for the purpose of determining an exact location.

Example 3: Location A would result in annual fixed costs of ₹ 3,00,000, variable costs of ₹ 63 per unit, 1 and revenues of ₹ 68 per unit. Annual fixed costs at location Bare ₹ 8,00,000, variable costs are ₹ 32 per unit, and revenues are ₹ 68 per Unit. Sales volume is estimated to be 25,000 units per year.

The additional data, not reducible to rupee figures, relating to the two locations are as follows:

	Locations	
	A	**B**
Community attitude: Community facilities: Employee housing:	Wants business Very good excellent	indifferent good good

Which location is more attractive on the basis of annual costs? Which site is better on overall basis?

Solution:

Table showing comparative Profitability of Locations.

	Alternative Locations	
	A ₹	B ₹
Revenue: (i) Costs:	17,00,000	17,00,000
Variable	15,75,000	8,00,000
Fixed	3,00,000	8,00,000
Total cost (ii) Profit (loss)	18,75,000	16,00,000
	(1,75,000)	1,00,000

On the basis of costs, Location B is more attractive, even though annual. fixed costs are much higher than for A However, if we include the impact of intangible factors - community attitude, community facilities and employee housing also, the location B may not necessarily be obvious choice.

In the process of identifying evaluating alternatives, management must consider the behavioral implications of location also. The revenues of many service organisations depend upon a location featuring customer convenience. Organisations having less direct contact with the consuming public must recognise potential difference In employee behaviour among various locations. Differences in life-styles and values are necessarily carried over into the workplace, and these differences affect on the job behaviour.

At the international level, production managers must recognise that locating in another country involves more than a simple transplanting of technology, and that they must try to uncover hidden behaviorally problems. Cultural differences, for example, may inhibit efficient operations.

Government Policy On Industrial Location

Need for Government Policy

If industrial location is governed solely by considerations of economic efficiency it may give rise to several socio-economic evils. Therefore, planned and regulate location of industries is necessary.

In the absence of Government controls, private industrialists are likely to set up industries in already developed areas resulting in lopsided development of the country. Government policy on industrial location is needed.

Notes

1. to ensure balance regional development of the country;
2. to develop local resources;
3. to make efficient utilisation of national resources,
4. to ensure equitable distribution of employment opportunities;
5. to achieve' equitable distribution of income and wealth;
6. to remove poverty and to improve living standards in backward regions; and
7. to speed up industrial developments

Problem of Concentration

In India there has been concentration of industries in general as well as in particular due to uneven distribution of natural resources in different parts of the country and absence of any Government control on location before independence. In general, four States namely Maharashtra, West Bengal, Gujarat and Tamil Nadu account for more than one-third of the total industrial development in the country. In particular, there has been heavy concentration of certain industries in some States. For instance, the jute industry is localised in West Bengal, sugar industry in Uttar Pradesh and Bihar, cotton textile industry in Maharashtra and Gujarat etc.

It results in gross inequalities in the distribution of income and wealth.' People living in backward areas are deprived of equal employment opportunities. Excessive concentration of industries puts undue strain on housing, transport and other public services and results in wide regional disparities in the standard of living. Concentration of industries creates problems of housing, transport, slums, health, traffic congestion, pollution etc. It also poses a danger to the country's defence.

Balanced Regional Development - Need of the Hour

From the foregoing discussion, it is clear that the tendency to concentrate industries in a few places is associated with several social and economic evils. To obviate these evils, the tendency to concentrate industries must be reversed. For "economic growth and equitable distribution of income and wealth, it is essential that industrial activity should be distributed evenly throughout the economy. Thus, the balanced regional development is expected to yield the following benefits:

1. It helps in the reduction of regional disparities in the distribution of income and wealth.
2. It leads to an equitable distribution of employment opportunities.
3. It facilitates a more even development of the local resources ofthe country as a whole.
4. It ensure for more efficient utilisation of economic resources.
5. It helps in removing poverty in backward areas and, thus, helps in increasing the standard of living of the people.
6. It protects industries from external attack.
7. `It helps in reducing the social problems like slums, overcrowding, traffic congestion; etc.

To sum up, to overcome the problems of concentration of industries is necessary that the location of industries be regulated and controlled. Here lies the need for Government policy on location of industries.

Government Policy of Industrial Location

The industrial location may be, controlled by the Government of a country by adopting a 'two-fold approach'. The first fold consists of positive measures to encourage establishment of industries in certain areas and the second fold relates to negative measures to discourage establishment of industries in certain other areas.

1. **Positive Measures:** The positive measures include incentives given to industries being established in certain areas. In general, to ensure balanced regional development the country, the positive measures are more effective than the deterrents. The incentives and facilities provided by the Government may include the following:
   (i) Provision of basic infrastructure like transport and communication network, water, power, fuel etc. in backward regions.
   (ii) Provision of socio-economic amenities like education, helath, recreation, training, marketing facilities for local industries with a view to develop backward areas.
   (iii) Granting of tax concessions to industrial units established in specified backward areas.
   (iv) Granting or subsidies: The subsidies may be direct as well as indirect.

   Direct subsidies may take the form of subsidised prices, supply of raw materials, tools and equipment at concessional prices, etc. Indirect subsidies may be in the form of reducing, the cost of certain services or to offset the effect of unfavourable factors in industrially backward areas. For example, a transport subsidy, which consists of a grant of 50 percent of the transport cost on raw materials, is given to industrial units established in the hilly areas of Assam, Jammu and Kashmir, Meghalaya, Nagaland, Manipur,Tripura, etc.

   (v) Assurance by the Centre of State Government(s) to buy the finished products of the industrial units set up in backward parts of the country.
   (vi) Provision of finance at concessional rates of interest to industrial units established in backward districts.
   (vii) Issue of licenses liberally and on a preferential basis for setting up plants in backward regions.
   (viii) Establishment of industrial estates in industrially backward regions. The main' purpose of creating such states is to enable a large number of small scale units to have the advantage of common services and facilities provided by the Government.
2. **Negative Measures:** The negative measures include detrrents in the form of restrictions and disincentives designed to discourage establishment of new industrial units in concentrated areas. The detrrents may take the following forms:
   (i) Enhancing rates of local taxes in concentrated areas. To prevent excessive concentration of industries in certain .areas, taxes may be imposed of the industrial units for the benefit of the new units in backward areas.
   (ii) Taking up licensing policy which discourages establishment of new units in concentrated areas. According to Industries (Development and Regulation) Act, 1951, industries covered under the Act are required to obtain an industrial license for starting a new unit and also for substantial expansion of an existing unit. The licensing authorities, while granting license ensure that the backward areas get their due share of industrial development and the new enterprise does not disturb the regional balance.
   (iii) Passing laws prohibiting establishment of any new industries in certain areas. For example, as per the Industrial Policy, 1977, no more licenses are to be issued for establishing new industrial units within specified limits of big cities having a population, as per 1971 census, of more than 10 lakhs and urban areas having a population of more than 5 lakhs.

Policy Measures on Industrial Location in India

Notes

Before independence; the Government did not give any attention to the balanced regional development of the country. The entrepreneurs were free in selecting locations for their plants. They selected locations on the basis of economic considerations alone; and due to that the industrial plants got concentrated in a few selected regions like Bombay, Calcutta; Ahmedabad, Madras, etc..

After independence, the announcement of the Industrial Policy in 1947 fixed the overall responsibility on the Government for the planned of development of industries and their regulation in the national interest.

Consequently, the Industries (Development and Regulation) Act, 1951, was passed. This Act requires an industrialist to get a license before he starts a new plant. While granting the license, the Licensing Committee, set up under the Act, is required to consider the suitability of the location and ensure that regional balance is not upset by new industries. While granting a license, it is always kept in mind that industrially backward areas get their proper share in industrial development. Also, further concentration of already congested areas is avoided.

The Industrial Policy Resolution, 1956 stressed the importance of balanced regional development and emphasised the progressive reduction of disparities in the levels of development between different regions. The entire country can attain higher standard of living by securing a balanced and coordinated development of industrial and agricultural economy in each region. For this purpose, the Resolution suggested, among others, for the provision of positive facilities to areas which are lagging behind industrially. The Policy also emphasised the establishment of Industrial Estates which were likely to help in the decentralisation of industrial activity.

The Industrial Policy Resolution of 23rd December, -1977 stated that "the Government attached great importance to balance regional development of the entire country so that disparities in the levels of development between different regions are progressively reduced". With a view to prevent concentration of industries around metropolitan and urban centres, it was decided that no more licenses are to be issued for setting up industrial units in metropolitan cities with population of more than 10 lakhs and urban areas having a population of more than 5 lakhs, as per the 1971 census. It was also declared that the State Government and financial institutions would be requested to deny support to 'new industries in these areas such as those which do not require an industrial license. The Central Government would also consider the provision of assistance for helping existing large industries to more out of congested areas.

The Industrial Policy Statement, 1980 reiterated Government's commitment to balanced regional development of the country and emphasised the crucial role of industrialisation and the importance of dispersal of industries. As' per the Policy Statement, the Government has decided to encourage dispersal of industry and setting up of units in industrially-backward areas, and to offer special concessions and facilities for this purpose which will be growth and performance-oriented. The Industrial Policy aimed at correction of regional imbalances through a preferential development of industrially backward regions. The Industrial Policy suggested a regular periodic assessment of the impact of incentives to determine the extent to which such incentives have fulfilled the objectives.

The Sixth Five Year Plan (1980-85) reiterated the need for "a progressive education in regional inequalities in the pace of development and in the diffusion of technological benefits". The Government initiated the backward areas development scheme in order to minimise regional disparities in terms of location of industries. As per this scheme, the Central and State Governments identify "no industry districts" and offer incentives to private entrepreneurs for starting industries in these districts. The Seventh Plan also showed a growing concern over the undue growth of so me regions in preference to others and the resulting regional imbalances in industrial development of the country.

The Government liberalised its industrial licensing policy on 1st May, 1990. Accordingly, "all new units upto an investment of ₹ 25 crores in fixed assets in non backward areas and ₹ 75 core in centrally notified backward areas will be exempted -from the requirements of obtaining license". This policy, thus, aimed at motivating industrialists to start large scale units in backward areas notified by the Central Government.

Notes

The Eighth Five Year Plan has stressed the development of industrial infrastructure in backward areas. As per the Industrial Policy, 1991, there is no requirement of Governmental approval for the location of projects except in case of 23 cities each with a population of more then one million. The emphasis of 1991 Policy is also on the decentralisation of industries. The concessions available in the backward areas will continue. For setting up new units in hilly and backward areas, the entrepreneurs are offered Investment Subsidy by the Central Government.

To sum up, the balanced regional industrial development of the country is need of the hour. We must have equitable distribution of industries in all areas. Government regulations and policy always favour decentralisation of industries, and, particularly, development of backward regions to bring about industrial and commercial growth.

Industrial Estates

An industrial estate or an industrial park is an area that has been specially designed so that factories can be built there. The idea of industrial estate is borrowed from the United Kingdom for the encouragement of industrial growth in selected areas. It is an institutional arrangement for building up basic infrastructure and common services facilities for the development of industrial units. All utility services such as water, electricity, transport, drainage, are readily available to all units at low or even subsidies rates. External economies of scale of operations are available from the establishment and development of industrial estates.

Objectives of Industrial Estates

The Government of India set up the Small Scale Industries Board in 1955 which proposed the idea of establishing industrial estates with the following objectives:

1. Promotion of small and medium-sized industries in the backward areas.
2. Removal of congestion in the industrial areas of metropolitan towns,
3. Achievement of balanced regional development through decentralisation of industry, and
4. Growth of ancillary industries in the townships surrounding major industrial units.

Advantages of Industrial Estates to Entrepreneur

An industrial estate offers the following benefits to the entrepreneurs:

1. It offers industrial sites at low rates. They need not incur special cost of survey, or finding a suitable-location of the factory.
2. At utility services like water, electricity, drainage etc. and common service facilities like testing centres, industrial training workshops, insurance etc. are readily available to all the units normally, at subsidisted rates.
3. Each member unit enjoys protection and security from the promoters of such estates.

Besides being useful to the entrepreneur; an industrial estate is advantageous to the community also. It helps in increasing employment opportunities. It facilitates balanced growth of all regions. It adds to revenues of public authorities and helps in raising standard of living of the People. Thus, it is instrumental in removing poverty.

Lastly, in pioneering and establishment of projects of industrial estates, extraordinary care and precautions must be taken. The honesty and sincerity must prevail at all stage of the projects so that the entrepreneurs are in a position to get best out of these and, subsequently, are in a position to ofler the best to the society.

5.22 Demand Analysis and Market Potential Measurement

Notes

Demand analysis is concerned with two broad issues: What is the likely aggregate demand for the product/service? What share of the market will the proposed project enjoy?

Intelligent and meaningful answers to them call for an in-depth study and assessment of various factors like patterns of consumption growth, income and price elasticity of demand, composition of the market, nature of competition, availability of substitutes, teach of distribution channels etc.

Given the importance of demand analysis, it should be carried out in an orderly and systematic manner. The key steps in such analysis are as follows:

1. Situational analysis and specification of objectives
2. Collection of secondary information
3. Conduct of market survey
4. Characterisation of the market
5. Demand forecasting
6. Market planning

This chapter discusses these steps in detail.

(A) Situational Analysis and Specification of Objectives

In order to know the relationship between the product and its demand, entrepreneur may informally talk to customers, competitors, middlemen, and others in the industry. Situational analysis generates enough data to measure the market. To get a reliable handle over projected demand and revenues, a formal study need not be carried out, particularly' when cost and time considerations so suggest. To carry out such a study, it is necessary to spell out its objectives clearly and comprehensively. Often this means that the intuitive and informal goals that guide situational analysis need to be expanded and articulated with greater clarity. A helpful approach to spell out objectives is to structure them in the form of questions. In doing so, always bear in mind how the information generated will be relevant in forecasting the overall market demand and assessing the share of the market the project will capture. This will ensure that questions not relevant to market and demand analysis will not be asked unnecessarily.

To illustrate, suppose that data is to be gathered about food processor based on a new principle that appears to offer several advantages over the conventional mixie. The entrepreneur needs information about where and how to market the food processor. The objectives of market and demand analysis in this case may be to answer the following questions:

- Who are the buyers of mixie?
- What is the total current demand for mixie?
- How is the demand distributed temporally (pattern of sales over the year) and geographically?
- What is the break-up of demand for mixie of different sizes?
- What price potential customers be convinced about the superiority of the food processor?
- How can potential customers be convinced about the superiority of the food processor
- What price and warranty will ensure its acceptance?

- What channels of distribution are most suited for the food processor?

What trade margins will induce distributors to carry it? .

- What are the prospects of immediate sales?

Notes

(B) Collection of Secondary Information

In order to answer the questions listed while delineating the objectives of the market study, information may be obtained from secondary and/or primary sources. Secondary information is information that has been gathered in some other context and is already available. Primary information, on the other hand, represents information that is collected for the first time to meet the specific purpose on hand. Secondary information provides the base and the starting point for demand analysis. It indicates what is known and often provides leads and cues for gathering primary information required for further analysis. This section looks at the secondary information and the following at the primary information.

General Sources of Secondary Information

- **Census of India:** A decennial publication of the Government of India, it provides, information on population, demographic characteristics, household size and composition.
- **Economic Survey:** An annual publication of the Ministry of Finance, it provides the latest data on industrial production, wholesale prices, consumer prices, exports, agricultural production, national income, etc.
- **Guidelines to Industries:** An annual publication of the Central Statistical Organisation, it contains information on various aspects of industry: number of units and state-wise distribution, average number of working days, employment, materials consumption, quantity of products, etc.
- **Annual Reports of the Development Wing:** *Ministry of Commerce and Industry:* An annual publication, it gives a detailed review of industries under the purview of the wing. It also provides information about new items manufactured for the first time in India and the list of protected industries.
- **Annual Bulletin of statistics of Exports and Imports:** An annual publication of the Ministry of Commerce, it provides data on imports and exports for a very large number of items and as per international classification.
- **Monthly Studies of Production of Selected Industries:** A monthly publication of the Central Statistical Organisation, it provides all India data on production, number of units installed capacity, state-wise break-up, stock level, etc., for several selected industries.
- **Publications of Advertising Agencies:** The leading advertising agencies like Clarion, McCann and Thompson have published test markets, marketing rating indices of towns of India, consumer index of markets, and other studies which throw valuable light on Indian markets.

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 analyst should seek to know:

- Who gathered the information? What was the objective?
- When was the information gathered? When was it published?

Notes

- How representative was the period for which the information was gathered?
- Have the terms in the study been carefully and unambiguously defined?
- What was the-target population? How was the sample chosen?
- How representative was the sample?
- How satisfactory was the process of information gathering?
- What was the degree of sampling bias and non-response bias in the information gathered?
- How accurately was the "information edited, tabulated, and analysed?
- Was statistical analysis properly applied?

(C) Conduct of Market Survey

Secondary information, though useful, often does not provide a comprehensive basis for demand analysis. It needs to be supplemented with primary information gathered through a market survey, specific to the project being appraised.

The market survey may be a census surveyor a sample survey. In a census survey the entire population is covered. The word 'population' refers to the totality of all units under consideration in a specific study. Census surveys are employed principally for intermediate goods and investment goods when such goods are used by a small number of firms. In other cases, a census survey is very costly and may also be infeasible. For, example, it would be inordinately expensive-may be impossible-to cover every user of Lux soap or every person in the income bracket of ₹ 5,000- ₹ 10,000.

Due to the above mentioned limitations of the census survey, the market survey, in practice, is typically a sample survey. In such a survey a sample of the population is studied/observed and relevant information is gathered. On the basis of such information, inferences about the population may be drawn.

The information sought in a market survey may relate to one or more of the following:

- Total demand and rate of growth of demand
- Demand in different segments of the market
- Income and price elasticities of demand
- Motives for buying Purchasing plans and intentions
- Satisfaction with existing products Unsatisfied needs
- Attitudes toward various products
- Distributive trade practices and preferences ä Socio-economic characteristics of buyers

Steps in a Sample Survey

Typically, a sample survey consists of the following steps:

1. **Define the Target Population:** In defining the target population the important terms should be carefully and unambiguously defined. The target population may be divided into various segments which may have differing characteristics. For example, all television owners may be divided into three to four income brackets.
2. **Select the Sampling Scheme and Sample Size:** There are several sampling schemes: simple random sampling, cluster sampling, sequential sampling, stratified sampling, systematic sampling, and non probability sampling. Each scheme has its advantages and limitations. The sample size has a bearing on the reliability of the estimates-the larger the sample size, the greater the reliability.

Notes

3. **Develop the Questionnaire:** The questionnaire is the principal instrument for eliciting information from the sample of the respondents. The effectiveness of the questionnaire as a device for eliciting the desired information depends on its length, the types of questions, and the wording of questions. Developing the questionnaire requires a thorough understanding of the product/service and its usage, imagination, insights into human behaviour, and familiarity with the tools of descriptive and inferential statistics to be used later for analysis. It also requires knowledge of psychological scaling techniques if the same are employed for obtaining information relating to attitudes, motivations, and psychological traits. Industry and trade market surveys, in comparison to consumer surveys, generally involve more technical and specialised questions.

   Since the quality of the questionnaire has an important bearing on the results of market survey, the questionnaire should be tried out in a pilot survey and modified in the light of problems/difficulties noted.

4. **Recruit and Train the Field Investigators:** Recruiting and training of field investigators must be planned well. Great care must be taken for recruiting the right kind of investigators and imparting the proper kind of training to them. Investigators involved in industry and trade market survey need intimate knowledge of the product and technical background particularly for products based on sophisticated technologies.

5. **Obtain Information as per the Questionnaire:** Respondents may be interviewed personally, telephonically, or by mail for obtaining information. Personal interviews ensure a high rate of response. They are, however, expensive and likely to result in biased responses because of the presence of the interviewer. Mail surveys are economical and evoke fairly candid responses. The response rate, however, is often low. Telephonic interviews, common in western countries, have very limited applicability in India because telephone tariffs are high and telephone connections are few.

6. **Scrutinise the Information Gathered:** Information gathered should be thoroughly scrutinised to eliminate data which is inconsistent and is of dubious validity. For example, a respondent with a high income and large family may say that he lives in a one-room house. Such information, probably inaccurate, should be deleted. Sometimes data inconsistencies may be revealed only after some analysis.

7. ***Analyse and Interpret the Information:*** Information gathered in the survey needs to be analysed and. interpreted with care and imagination. After tabulating it as per a plan of analysis, suitable statistical investigation may be conducted, wherever possible and necessary. For purposes of statistical analysis, a variety of methods are available. They may be divided into two broad categories: parametric methods and non- parametric methods. Parametric methods assume that the variable or attribute under study conforms to some known distribution. Non- parametric methods do not presuppose any particular distribution.

   Results of data based on sample survey will have to be extrapolated to the target population. For this purpose, appropriate inflationary factors, based on the ratio of the size of the target population to the size of the sample studied, will have to be used.

The statistical analysis of data should be directed by a person who has a good background in statistics as well as economics.

It may be emphasised that the results of the market survey can be vitiated by: (i) non-representativeness of the sample, (ii) imprecision and inadequacies in the questions, (iii) failure of the respondents to comprehend the questions, (iv) deliberate distortions in the answers given by the respondents, (v) improper handling of the interviews by the investigators, (vi) cheating on the part of the investigators, (vii) incorrect and inappropriate analysis and interpretation of data.

(D) Characterisation of the Market

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Based on the information. gathered from secondary sources and through the market survey, the demand for the product/service may be described in terms. of the following:

1. **Effective Demand in the Past and Present:** The effective demand in the past and present, can be gauged with the formula as given below:

   Production + Imports - Exports - Changes in stock level

2. **Breakdown of Demand:** To get a deeper insight into the nature of demand, the aggregate market demand may be broken down into demand for different segments of the market. Market segments may be defined by (i) nature of product (ii) consumer group, and (iii) geographical division.

   Nature of Product: One generic name often subsumes many different products: steel covers sections, rolled products, and various semi-finished products; commercial vehicles cover trucks and buses of various capacities and so on.

   Consumer Groups: Consumers of a product may be divided into industrial consumers and domestic consumers. Industrial consumers may be subdivided industry wise. Domestic consumers may be further divided into different income groups.

   Geographical Division: A geographical breakdown of consumers, particularly for products which have a small value-to-weight relationship and products which require regular, efficient after-sales service is helpful.

   Segmental information is helpful because the nature of demand tends to vary from one segment to another (the demand from consumers in high income brackets may not be sensitive to price variations whereas the demand from consumers in low income brackets may be very sensitive to price variations) and different marketing strategies may be appropriate to different market segments.

3. **Price:** Price statistics must be gathered along with statistics pertaining to physical quantities. It may be helpful to distinguish the following types of prices: (i) manufacturer's price quoted as FOB (free on board) price or CIF (cost, insurance, and freight) price, (ii) landed price for imported goods, (iii) average wholesale price, and (iv) average retail price.

4. **Methods of Distribution and Sales Promotion:** The methods of distribution may vary with the nature of product. Capital. goods, industrial raw materials or intermediates, and consumer products tend to have differing distribution channels. Likewise, methods used for sales promotion (advertising, discounts, gift schemes, etc.) may vary from product to product.

   The methods of distribution and sales promotion employed presently and their rationale must be specified. Such a study may explain certain patterns of consumption and highlight the difficulties that may be encountered in marketing the proposed products.

5. **Consumers:** Consumers may be characterised along two dimensions as follows:

Demographic and sociological	**Attitudinal**
Age	Preferences
Sex	Intentions
Income	Habits
Profession	Attitudes
Social background	Responses

6. **Supply and Competition:** It is necessary to know the existing sources of supply and whether they are foreign or domestic. For domestic sources of supply, information along the following

lines may be gathered: location, present production capacity, planned expansion, capacity utilisation level, bottlenecks in production, and cost structure.

Competition from substitutes and near-substitutes should be specified because almost any product may be replaced by some other product as a result of relative changes in price, quality, availability, promotional effort, and so on.

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7. **Government Policy:** The role or government in influencing the demand for a product may be significant. Governmental plans, policies, legislations, and fiats which have a bearing on the demand of the product under examination should be spelt out. These are reflected in: production targets in national plans, import and export trade controls, import duties, export incentives, excise duties, sales tax, industrial licensing, preferential purchases, credit controls, financial regulations, and subsidies/penalties of various kinds.

(E) Demand Forecasting

After gathering information about various aspects of demand from primary and secondary sources, an attempt may be made to estimate future demand. Demand forecast is an estimate of sales in monetary or physical units for a specified future period under a proposed business plan or programme or under an assumed set of economic and other environmental forces, planning premises outside the business organisation for which the forecast or estimate is made.

An efficient demand forecast helps the management to take suitable decisions regarding plant capacity, raw-material requirements, space and building needs and availability of labour and capital. Production schedules can be prepared in conformity with demand requirements minimising inventory, production and other related costs.

Demand forecasting also helps in evaluating the performance of sales department.

Thus demand forecasting is a necessary and effective tool in the hands of the management of an enterprise to have finished goods of right quality and quantity at right time with minimum cost.

Management experts have developed many forecasting techniques to help managers handle the increasing complexity in management decision making. It is a tricky and experimental process. No one method of forecasting can be applied to all enterprises. In many cases the decisions are based on a combination of several, if not all, of these approaches. Final forecast generally include the contributions of many men of varied experience. The use of particular-method depends upon the nature of the enterprise, the products manufactured, information system in use etc.

Forecasts may be derived by means of sophisticated analysis .or they may be the result of intuition. Organisations commonly use following methods for demand forecasting:

Qualitative Methods: These methods rely essentially on the judgement of experts to translate qualitative information into quantitative estimates. The important qualitative methods are as follows.

- **Jury of executive opinion method:** This method calls for the Pooling of views of a group of executives on expected future sales and combining them into a sales estimate.
- **Delphi method:** This method involves converting the views .of a group, of experts, who do not interact face-to-face, into a forecast through an interactive process.

Time Series Projection Methods: These methods generate forecasts on the basis of an analysis of the historical time series. The important time series projection methods are as follows:

- **Trend projection method:** The trend projection method involves extrapolating the past trend into the future. The methods under this category are based on the assumption at future events are a continuation of the past. In other words, historical data can be used to predict the future. A firm accumulates data on its sales at different points of time in the past. If this firm has been In existence for some arrangement of this data.(time-wise)

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gives a time series. A time series is the measurement of a variable (say, sales, production or profit) over time. This data can then be used to forecast sales (or demand) in future by projecting the past trend into future. Popularity of these methods rests on the fact that these are simple, inexpensive and quick methods of forecasting. These methods yield reasonably accurate results so long as the trend of the data has a persistent tendency to move in the same direction. But if the data shows significant turns then the time series analysis may not give acceptable results.

- **Exponential smoothing method:** Exponential smoothing, is a very popular approach for short-term forecasting. This method determines values by computing exponentially weighted system. The weights assigned to each value reflect the degree of importance of that value. More recent values being more relevant for forecasting, these are assigned greater weight than previous period values. It may be noted that weights (w) are so assigned that w lies between zero and unity ($O \le w \le l$).

To describe the process of exponential smoothing, let Y be the observed value of the series at time t, and St be the smoothened value at time *t*. The smoothing scheme begins by setting smoothened value equal to observed value for the first period ($t = 1$):

$$\text{That is, } \begin{bmatrix} \text{Current} \\ \text{smoothed} \\ \text{value} \end{bmatrix} = w. \begin{bmatrix} \text{Current} \\ \text{observed} \\ \text{value} \end{bmatrix} + (1-w). \begin{bmatrix} \text{Previous} \\ \text{smoothened} \\ \text{value} \end{bmatrix}$$

This is the basic equation of exponential smoothing. The weight 'w' is also called smoothing constant. In the exponential smoothing scheme, the contribution of remote values to St becomes less at each successive time period. However, the rate at which this contribution declines depends on the value of w. If value of w is near 0 the impact of remote values dampens slowly, while if w is near 1 it dampens out quickly. Though the rigorous mathematical technique of selecting the best value of 'w' is beyond the scope of the lesson, rule-of-the-thumb may be prescribed for its selection:

(i) When the magnitude of the random variations is large, give a lower value to w so as to average out the effects of the random variation quickly;

(ii) When the magnitude of the random variation is moderate, a large value be assigned to die smoothing constant w.

- *Moving average method:* Moving average are smoothened values of time series. These averages are derived by averaging the value of series over successive time intervals. The illustration below gives the 3-yearly moving average of sales of sales of a company (col. 4). Let St represent the actual sales during year t. The average sales of the first years have been founded as: $B(S_1 + S_2 + S_3) = B \times 132 = 44$.

Year	Sales (₹ '000) Totals	3 – Yearly Moving Average (Trend Value)	3-yearly
(1)	(2)	(3)	(4)
1977	30	–	
1978	42	30+42+60=132	44
1979	60*	42+60+72+=216	58
1980	72	60+72+84=216	72
1981	84	72+84+92+=248	82.7
1982	92	84+92+100+276	92

1983	100	92+100+112=304	101.3
1984	112	=338	112.7
1985	126	=378	126
1986	140	=414	138
1987	148	=452	150.7
1988	164	=492	164
1989	180	=534	178
1990	190	=574	191.3
1991	204	=614	204.7
1992	220	—	—

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Since the average represents the interval of 3 years the average value is centered at the middle of the interval (i.e., the moving total and moving average are listed against the 2nd year in the Table and in the figure accompanying the Table). If we call this average as S_2, then S_2 = 44. By shifting the interval forward by one year each time, we can compute moving average for successive years. For example, the second interval of 3 years is.

$S_2 = B\ (S_2 + S_3 + S_4) = B \times 174 = 58$

Further, the third interval, fourth interval, etc. would be

$S_3 = B\ (S_3 + S_4 + S_5) = B \times 216 = 72$

$S_4 = B\ (S_4 + S_5 + S_6) = B \times 248 = 82.7$

And so forth. The moving-average formula can be written in a simplified form (known as recursive form).

$$S_1 = S_{t-1} + \frac{\text{next observation} - \text{most remote observation}}{M}$$

where, S_t is the moving average at time point t;

M is 'the interval of time taken for averaging (for example 3 year in the above illustration).

If we look carefully at the moving average computation, we will find that all we are doing at each step is to recompute the average by adding the next observation and dropping the observation that occurred M periods in the past (i.e., the 1st observation in calculating previous S).

Odd number of time periods (i.e., 3 yearly, 5 yearly etc.) are usually preferred for determining moving average because the averaged out value (S) can be placed at the middle of the interval (as shown in Illustration above). If the number of time periods is even, the middle of the interval does not lie against any time point-rather it would lie between two time points. For example, if 4-yearly moving average is attempted in the above case, then the middle of the first interval would lie between 1978 and 1979. In order that comparison of moving averages with the actual value is possible, we prefer odd number of time periods. However, if we need to handle even number of time periods when computing moving average, we need to add another column to the Table. For example, if in the earlier illustration we take a 4-yearly moving average then the values of moving average would be respectively 51, 64.5, 75, and so on. And, these moving average values will lie respectively between 1978 and 1979, between 1979 and 1980, between 1980 and 1981, and so forth. We will, therefore have to construct a fresh column of centered moving averages where we find the mean of these moving averages-and then place them against the relevant year. For example, $\frac{51 + 64.5}{2} = 57.75$ is now placed against 1979, $= \frac{64.5 + 75}{2} = 69.75$ is placed against 1980; and so on. In this manner we overcome the disadvantage of even number of time periods.

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Causal Methods: More analytical than the preceding methods, causal methods seek to develop forecasts on the basis of specified in an explicit, quantitative manner. The important methods under this category are as follows:

- ***Chain ratio method:*** A simple analytical approach, this method calls for applying a series of factors for developing a demand forecast.
- ***Consumption level method:*** Useful for a product that is directly consumed, this method estimates consumption level on the basis of elasticity coefficients, the important ones being the income elasticity of demand and the price elasticity of demand.
- ***End use method:*** Suitable for intermediate products, the end use method develops demand forecasts on the basis of the consumption coefficient of the product for various uses.
- ***Leading indicator method:*** According to this method, observed changes in leading indicators are used to predict the changes in lagging variables.

Demand Analysis and Managerial Decisions

The quantity demanded at a point of time is subject to many influences. Economists treat price of the product as the single most important variable influencing demand. However, in the highly competitive modem business world, perhaps the other determinants have acquired equal importance, if not more.

To keep up-to-date knowledge about the movement of prices of rival firms, changes in tastes and fashion, etc. is essential for survival and growth of a firm.

Management of a firm may also like to find out which of the variables in the demand function, can be subject to managerial control. It is quite obvious that factors like population, distribution of consumer (economically, socially, ethnically and demographically), prices of related goods as well as consumes' present income and their expected future incomes are beyond the control of management of any firm. So, these factors have to be taken as given by the management at any point of time. On the other hand, one finds that management has considerable control over the price of its own product as well as the level and nature of advertisement for its product. With the help of the latter it may influence the tastes and preferences of consumers, thereby generating more demand for its own product.

In short, we may say that the scope of management to influence demand is quite restricted.

(F) Market Planning

To enable the product to reach a desired level of market penetration, a suitable marketing plan should be developed. Broadly, it should cover pricing, distribution, promotion, and service. The details that need to be hammered out are shown below:

Pricing	*Distribution*
Ex-factory price	Packaging
Taxes and duties applicable for the domestic price	Transportation arrangements
Trade margins/discounts	Channel of distribution
Final price to the domestic customer	wholesalers, and retailers. Export price
Promotion	*Service*
Branding Advertising"	Installation
Advertising	User education
Personal selling	Warranties
Promotional efforts	After-sales service

5.23 Market Potential Measurement

Notes

A market potential is an estimate of the maximum possible sales opportunities present in a particular market segment and open to all sellers of a good or service during a stated future period. Thus, an estimate of the maximum number of low-priced pocket cameras that might be sold in Haryana, during the calendar year 2001 by all sellers is the market potential for. low- priced "pocket cameras. A market potential indicates how much of a particular product can be sold to a particular market segment over some future period, assuming the application of appropriate marketing methods. The following steps are to be undertaken for measuring -the market potential of a particular product.

1. **Market Identification:** The first step in measuring a product's market potential is to identify its market. Market identification requires finding answers to three questions:
   (i) Who buys the product?
   (ii) Who uses it?
   (iii) Who are the prospective buyers and/or users?

   In some companies answers to these questions are found in internal records; but in most companies, especially those that use long marketing channels, meaningful answers are obtained only through field research. In consumer goods marketing, buyers, users, and prospects are identified and classified by according to such characteristics as age, sex, education, income, and social class. In industrial-goods marketing, buyers, users, and prospects are identified and classified by such characteristics as size of firm, geographical location, and type of industry.

   Market identification studies reveal the characteristics that differentiate the market segments making up the product's total market potential. Frequently they uncover unexploited market segments whose patronage' might by obtained through redirecting personal-selling effort or changing promotional strategy. Sometimes, market identification studies provide, as a side result, customer data on such factors .as purchase frequency, searching time expended, unit of purchase, and seasonal buying habits. When these data are assembled and analyzed, they are helpful in estimating market potential.

2. **Market Motivation:** The second step in measuring a product's market potential is to detect the reasons why customers buy it and the reasons why potential customers might buy it. Market motivation studies aim to answer twin questions: Why do people buy? Why don't people buy? The answers are helpful not only in estimating a product's market potential but are of immense value to the sales executive seeking to increase the effectiveness of promotional programs.

   Motivation research techniques vary, but the most widely used are the projective techniques, in which respondents project themselves, their attitudes, interests, and opinions into interpretations of special materials presented by the researcher. Analysis of results by trained specialists seeks to lay bare what goes on in buyers' minds, including the real reasons for buying 'or not buying the product. Most motivation studies have been directed toward explaining the buying behaviour of ultimate consumers rather than that of industrial users. Information derived from motivation studies helps not only in estimating a product's market potential but assists in deciding:
   (i) How best to present the product in sales talks?
   (ii) The relative effectiveness of different selling appeals.
   (iii) The relative appropriateness of various promotional methods.

3. **Measuring of Market Potential:** Having identified the potential buyers and their buying behavior, the third step is to measure the market potential. Generally, market potential cannot

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be measured directly, so analysis requires the use of market factors (a market factor is a market feature or characteristic related to the product's demand). For instance, the number of males reaching shaving age each year is one market factor influencing the demand for men's electric shavers. But not every male reaching shaving age is a prospective buyer of an electric shaver some will be late in starting to shave, others will adopt other shaving methods, some will not have the money to buy a shaver or will prefer to use that money for something else, and. still others will use borrowed shavers or, perhaps, simply will grow beards. Thus, using market factors in measuring market potential is a two- step process:

(i) Select the market factors most associated with the product's demand.

(ii) Eliminate those market segments that for one reason or another do not contain prospective buyers of the product.

5.24 Summary

The Industrial Policy Resolution of 23rd December, -1977 stated that "the Government attached great importance to balance regional development of the entire country so that disparities in the levels of development between different regions are progressively reduced". With a view to prevent concentration of industries around metropolitan and urban centres, it was decided that no more licenses are to be issued for setting up industrial units in metropolitan cities with population of more than 10 lakhs and urban areas having a population of more than 5 lakhs, as per the 1971 census. It was also declared that the State Government and financial institutions would be requested to deny support to 'new industries in these areas such as those which do not require an industrial license. The Central Government would also consider the provision of assistance for helping existing large industries to more out of congested areas.

The Eighth Five Year Plan has stressed the development of industrial infrastructure in backward areas. As per the Industrial Policy, 1991, there is no requirement of Governmental approval for the location of projects except in case of 23 cities each with a population of more then one million. The emphasis of 1991 Policy is also on the decentralisation of industries. The concessions available in the backward areas will continue. For setting up new units in hilly and backward areas, the entrepreneurs are offered Investment Subsidy by the Central Government.

One of the most important decisions which must be made when a new enterprise is to be established is the choice of its location. There may be many desirable locations from which to make a selections, but in all probability there will be a few sites which are more suitable than the others. In most instances, the three major factors that enter directly into location selection - raw materials, transportation facilities, and qualified labour-must be present in the right combination. In other instances, nearness to other plants, supply of cheap fuel, power, and water, the attitude of local government may be more important. It is impossible to rank these factors in order of importance, since for one type of enterprise nearness to raw materials may be the most important consideration, and for another type availability of transportation facilities may take precedence

5.25 Glossary

- *Unlimited Liability:* The unlimited liability of the single proprietor is a great disadvantage to him; because business debts run against his entire property and not merely against the amount invested in the business.
- *Profit and Loss Sharing*: There is an agreement among the partners to share the profits earned and losses incurred in partnership business.
- *Division of Risks:* In sole proprietorship, the risks of business are to be shouldered by one person alone; but in partnership, the risks are to be shared by all the partners. Thus, partnership is more useful for risky business.

- *Self-management skills:* To make it on your own, you must become a goal-directed and self-motivated individual. You must be able to get yourself started every day, stick to business, and close the door on work at the day's end.
- *Capital Requirements and Costs:* The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
- *Chain ratio method:* A simple analytical approach, this method calls for applying a series of factors for developing a demand forecast.
- *Employment Generating:* The number of persons proposed to be employed vis-a-vis employment situation of that area may be mentioned.
- *Socially Significant:* Sole proprietorship is important from social point of view also. It is a means for earning livelihood independently.

5.26 Review Questions

1. What are the different ownership form available to entrepreneurs? Discuss each form is brief.
2. Explain the advantages and disadvantages of different forms of business organisation.
3. "None of the four forms of business ownership is best in all respects". Discuss.
4. "One man control is the best in the world if the man is big enough to control everything". Do you agree? Give reasons.
5. You plan to start a small enterprise. How would your choose the appropriate form 'of ownership pattern for your enterprise.
6. What are the various problems likely to be faced by a firm as it expands? How can these be solved by changing the form of ownership?
7. Discuss the various environmental factors affecting the success of a new business.
8. State the reasons for failure of business and how these problems can be overcome.
9. Define the term 'project'. How will you classify the projects?
10. Define a project report. Why is a project report prepared?
11. What do you mean by project identification? Discuss the process involved in project identification?
12. What are the contents of a project report? Prepare a project report for starting a small scale soap manufacturing unit.
13. While adjudging the viability of your proposed project, what factors you will take into consideration.
14.
15. What do you understand by a suitable location? Explain its importance with reference to a new manufacturing enterprise.
16. What is Weber's theory of location? Discuss the grounds on which the theory is criticised.
17. Write a critical note on Sargent Florence's theory of location.
18. Explain the need of Government policy on location of industries. What are the objectives of Government's interference in location of industries?
19. What factors should be taken into account in deciding the location of the following:

    (a) A sugar mill and

    (b) A textile mill

20. Describe briefly the general sources of secondary information available in India.
21. Discuss the key steps in a sample survey.
22. Define the term 'Market Potential' . How it can be measured?
23. Briefly discuss the key steps involved in demand analysis.

Notes

5.27 Further Readings

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UNIT-6

SMALL BUSINESS MANAGEMENT

Notes

(Structure)

6.1 Learning Objectives

After studying the chapter, students will be able to:

- Importance of strategies for growth of small business units;
- Discuss how to manage cash flows;
- Explain the procedure for preparation of projected financial statements;
- Discuss the applications of business ratios;
- Discuss the sources of finance;
- Discuss the selection of target market;
- Discuss the pricing strategies and marketing of services;
- Define the export marketing.

6.2 Introduction

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Strategies, in simple sense, is referred to as a well planned course of action which is formulated to achieve certain specific objectives. The term 'strategy' is derived from the Greek word 'Strategos' which means generalship. It has been defined by many experts in many ways. Alfred Chandler refers strategy as involving three aspects, viz, determining long term goals and objectives, adoption of courses of action and allocating resources necessary for adopting the course of action. Kenneth Andrews terms strategy as the pattern of objectives, goals, purpose and the William F Glueck defines strategy as a unified, comprehensive and integrated plan designed to assure that the basic objectives of the enterprise are achieved. Thus, it is observed that strategy is an important ingredient of management control. Strategic decision making is one of the most prominent task of senior management (Kazmi, 2002).Strategies are formulated at different levels, viz, the corporate level, business level and functional level. Strategy formulation are important for the survival and growth of business firms. Managers have to plan beforehand in order to avoid the evil consequences of business fluctuations. This is more so in the case of small business units, which are already affected by factors like lack of capital, raw materials, sophisticated technology , market awareness and the like.

In the previous unit, we dealt with the steps for starting a small business enterprise. This unit will help you to understand the financial statements and business ratios. The various sections and sub-sections of this unit will also summarize the sources of finance and managing cash flows. Whenever there comes an idea of launching a new venture, the first thing that comes in mind is how to avail the required money for the proposed venture or business. Finance is the life-blood of a business enterprise or an organization. Also the success and failure of the new venture to a great extent remains dependent on the financial planning. Therefore, it is very important for every entrepreneur to draw up a financial plan at the starting stage of his new business or venture. A well defined clear cut plan will help in determining the need of finance at different stages of business.

Marketing plays a major role in our daily lives. Each day is filled with consuming products made available by marketers. We pay for marketing each time we buy a product. In fact, half of every rupee spent at the retail level goes to cover the marketing costs. Marketing is responsible for satisfying customers, which, in turn, increases our standard of living and quality of life.

The strategy for marketing goods produced by entrepreneur must, therefore, be ultimately beneficial to the consumer. No consumer is going to purchase goods unless he is satisfied with their quality and wherever necessary by an efficient after-sales service. This unit will help to understand the various aspects of marketing management.

6.3 Process of Strategic Management

The process of strategic management involves four steps:

1. **Establishing Strategic Intent:** This stage sets the platform for strategic management for any organization. Here, the mission, vision, objectives are defined which reflects the purpose for what the organization stands. Mission binds the organization to the society, whereas the vision element states what the organization wishes to achieve in the long run. While the objectives of the organization sets the standards for measuring organizational performance.
2. **Strategy Formulation:** At this stage, the organization conducts various activities including performing organizational and environmental appraisal to detect opportunities and threats operating in the environment alongwith the organizational strengths and weaknesses, formulating corporate and business level strategies and preparing the strategic plan.
3. **Strategy Implementation:** Here, strategies are activated and implemented. Structures are designed and strategies are operationalised.

4. **Performing Strategic Evaluation and Control:** Finally, strategies are evaluated to determine its successfulness and to exercise control over the strategic management process. In case of necessity, strategies can be reformulated.

6.4 Small Business Life Cycle

Notes

Business enterprises are a result of the business environment. The environment is ever changing in nature, and enterprises, in order to survive, should be sufficiently strong enough to cope with these challenges, which necessitates that it should grow to make the concern going. This is more so in case of small business. Small Business, although simple in nature and operation, requires human resources with greater skills and talents as compared to those in large scale enterprises because of the reason that the overall success of a small business depends on the competence of the promoter. New ventures, specifically, passes through various transitional stages, which poses challenges to the promoters. Represented in the form of an organizational life cycle, these transitional stages in small business necessitates promoters/ entrepreneurs to be alert and adaptive to changes that occur rapidly in the business environment. Entrepreneurial behavior plays a crucial role in decision making process at these various stages. The organizational life cycle consist of the following stages:

1. **Start-up Stage:** At this stage, the growth of an organization is characterized by inconsistency. Production and sales takes place in a limited scale. Competetion does not arise at this stage.
2. **Growth Stage:** Here, the business enterprise is gradually able to set up a position in the market. Production and sales level increases alongwith increasing competition.
3. **Expansion Stage:** During this stage, the business is characterized by rapid growth which assists entrepreneurs in evaluating market potential and opportunities for introducing new product lines. Innovation and developmental activities help in broadening product and service lines.
4. **Consolidation/ Maturity Stage:** As the intensity of competition rises, entrepreneurial concerns may have to face major decrease in their portion of market share. This is one of the most crucial stage. If necessary steps are not taken, it may result in organizational failure. Often referred to as 'industry shakeout period,' the majority of the weaker companies fail, sold out or are merged with others. Some of them consolidate with others to survive in the market. Moreover, the organization make efforts to shift authority downwards for improving efficiency. Staff reduction, reduction of product lines, withdrawal from high risk markets etc are some strategies implemented at this stage.
5. **Revival Stage:** At this stage, the organization once again tries to grow with new energies and ideas. The organization , in an attempt to scale new heights, makes strategies for achieving rapid growth. For this purpose, the enterprise reposition its product lines through effective segmentation of the market in terms of geographical area, targeted consumers, product et. This again provides a platform for product diversification. This necessitates innovations, which if repeated consistently, the company can achieve a pattern of upward growth. Strategies adopted at this stage mainly involves delegating authority to operational managers, making investment in research and developmental activities and restructuring organizations.
6. **Decline stage:** If sufficient safeguards are not taken at this stage, the growth of enterprises starts declining. Excessive diversification or creation of bureaucratic organizations maybe the reason for the rapid decline. The enterprise finds it difficult to survive because of reasons like gradual replacement of the products of an enterprise, changing preferences of consumer behaviour or due to some new innovations that may take place.

6.5 The Strategic Orientation to Build the Efficient Operation System for the MSME

The strategic orientation for the firm needs to focus on the resource utilization by maintaining the sustainability of the system. The right combination with waste minimization is important to enhance the performance. This requires the designing of the enablers to catalyze the development to gain the competitive edge in the markets. The enablers could be efficient and talented teams to harness the potential of market. The better designing of the improvement systems also enables cost reduction to enhance the profitability. Therefore the operational excellence can be achieved by:

- Strategy
- Performance to improve the cost structures
- Enablers- resource development to give the better products to the society

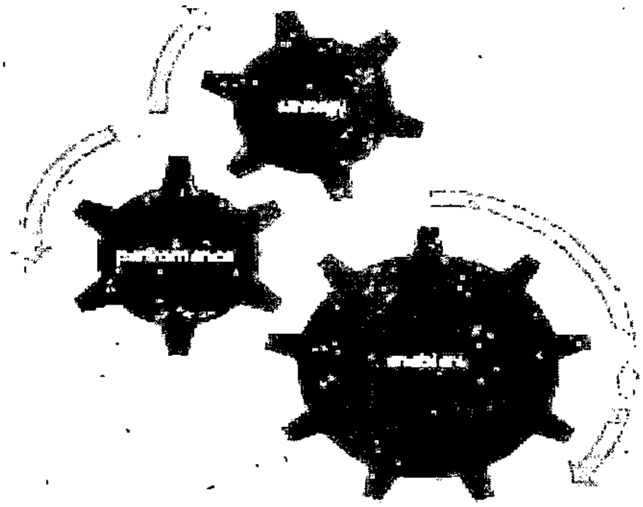

Figure 6.1. The efficiency Building Through the Strategy in a Firm

The Designing of the Successful Business Models

The successful business models of the small firms can be built by the investment in designing the products in such a way that they meet the market demand. The better cost of the product can be

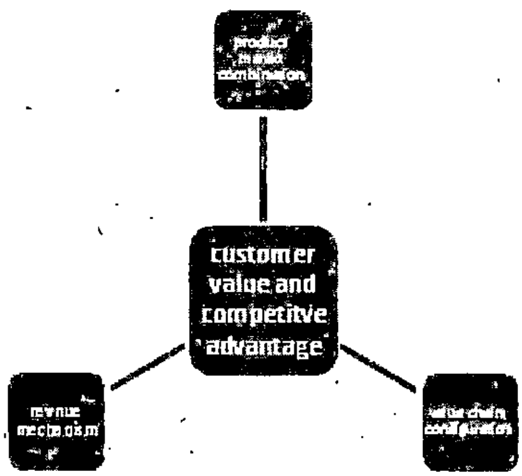

Figure 6.2. The Components of a Successful Business Model

built by the harnessing the raw materials at an optimum cost. The suppliers are important and the firms need to build efficient value chains so as to crystalize the better options of cost and profits for the firms. The cost and revenue management is important to build the successful business model where the products have the competitive edge of giving the utility and satisfaction to the customer at the minimum cost.

Notes

The Impact of Environment on the Successful Business Models

The business model works in a system which is exposed to the external forces of change in form of techno- logical, socio-cultural and technological forces. The legal political environment also influences the business system because of the changing values. The firms in the industry need to work with suppliers in a coordi- nated way to get the benefits of the latest materials and substitutes coming into the market. The relations and rivalry in the industry also impacts the product cost. The successful business entrepreneurs need to build good relations in the market to give the competitive products to the consumers.

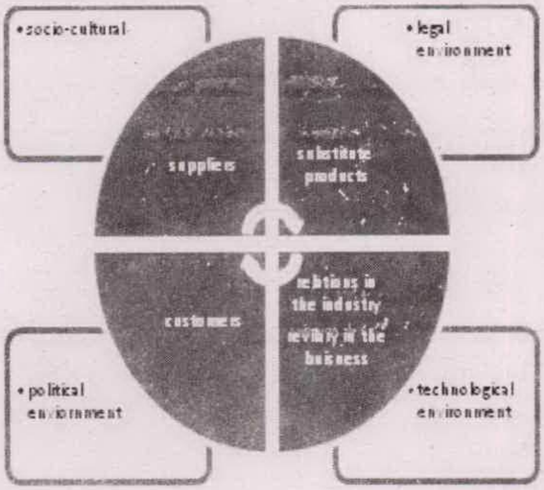

Figure 6.3. The Environmental Impact on the Business System

The cost Reductions for the Operations of the Business System

The cost of production of any business firm depends on the cost of raw material procurement procedure, the impact of technology and the target market. The cost is also influenced by the make or buy decisions of the small firms and the specifications of the product required by the customers.

Figure 6.4. The Factors Impacting the Cost of Production for MSME's

The cost reduction process needs to cover the operations related to all the areas of the business and it relates to the complete values chains. The comprehensive cost reduction strategy should emphasis on the technical benchmarking and the total value chain. The performance cost analysis should also focus on the innovation cost analysis by the process optimization built on the activity analysis and the supplier analysis.

comprehensive cost reduction strategy	technical benchmarking value chain anlaysis
	performance cost analysis innovation cost anlysis
	process optimisation activity based analysis supplier's cost analysi

Figure 6.5. The Comprehensive Cost Reduction Strategy

The cost of the production of small business firms is impacted by the following factors:

- sourcing functions
- unit prices levers
- Pro-activeness
- Develop professional buyers
- Structured approach for purchasing
- Price
- Negotiation
- Volume
- Concentration
- Relationship
- Redefinition and user
- Involvement

The small firms need to learn how to manage remote parts of their mega-networks while leveraging maximum synergies by doing the data- management. They need to find ways to obtain reliable purchasing information at a lower cost and with less effort. The basic ability is to get the skilled purchasing employees for getting the best options of the market is essential. The purchase cost of the materials is influenced by the modes of transportation and the availability of the resources at reasonable prices .The market forces influ- ence the prices of commodities and the supplies. The cost of the materials is influenced by attention to the following areas.

- Focus on process optimization/change management
- Focus on demand management
- Focus on price reduction
- Focus on value chain configuration
- Focus on specifications/ concept changes

The purchase decisions of the firm should focus on optimization of cost by paying attention to:

- Quantity leverage
- Volume bundling

Notes

- Bonus agreements
- Corporate supplier negotiation
- Multi-year contracts
- Lifecycle contracts
- Purchasing cooperation
- Demand management
- Order management (batch size)
- Transportation option
- Working capital

The technical improvement in the purchase process can build the better communication systems with the suppliers to build the specifications which can be created with the technical emphasis on value analysis. The innovation analysis and the creativity can put the impact on the product improvement and development. The change process engineering can build the optimum cost for the production of products and services. The suppliers are important and small business firms need to build better relations with the suppliers so to come into the joint improvement program. The supplier manufacturing analysis can helping in reducing the costing of warehousing and inventory management. The early involvement and collaboration with the suppliers can establish the system supplier to develop the advanced and modernized products.

The improving of operating cost performance can be by preparing the suppliers with the better options of materials and then generating the cost reduction ideas. The change management process can improve the design and development of the products.

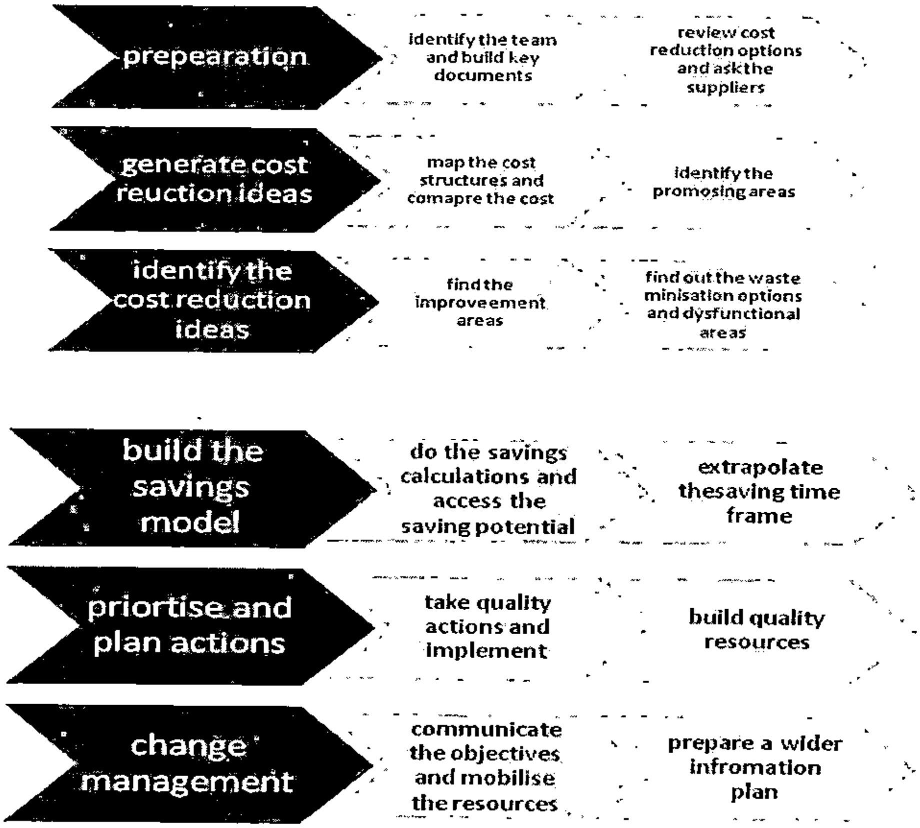

Figure 6.6. The Improving of Operating Cost of the Product Performance

Notes

The supply chain can empower the manufactures by the focus on:

- Manage the supply base
- Develop suppliers
- Integrate suppliers
- Build the supplier assessment system
- Basic tools Supplier Communication
- Formal performance
- Gap analysis
- Personnel and capital
- Supplier link
- Technology integration
- Integrating service
- Providers/system
- Suppliers/processes
- Integration structures and
- Product development

6.6 Growth Strategies for Small Business

Thus, we can observe that an organization passes through different stages and it has to face critical problems at every stage. For this reason, various strategies have to be formulated. Strategies like product modification, change in distribution channels, new market identification etc are implemented at the start-up stage to . Decision making skills are required at the expansion stage to continue expansion activities. Entrepreneurs should enlarge their enterprise and delegate authority to facilitate functional co-ordination.

Growth strategies are essential for retaining organizational competence. The basic growth strategies are mainly classified under two types:

1. **Internal Growth Strategies:** These strategies assist organizations to grow without taking the assistance of others. The main forms of strategies are expansion and diversification. Expansion refers to the enlargement or increase in size of business in the same product line. Expansion can be achieved by the enterprise through penetration into a new market or increasing the sales of a product in an existing market. For this purpose, enterprises implement different schemes like providing discounts, exchange offers etc. Moreover, market expansion can be done through developing or modifying the existing product for meeting consumer requirements. Expansion strategies, however, have certain disadvantages. Since expansion is concerned with the same line of business, therefore the business enterprise cannot take the advantage of new business opportunities.

   On the other hand, a firm may grow through adopting diversification strategies. Diversification provides opportunities to the business to utilize new product lines. It is defined as the process of adding more products/ markets/services to the existing one. Some of the distinctive advantages of diversification are:

   - it assist enterprises in making optimum utilization of resources and adds to its competitive strength.

- It minimizes risks and uncertainties.
- It assists business to prepare business enterprises to face business fluctuations.
- It ensures smooth operations of business and enhances its survival strength.

Notes

Diversification strategies, however, varies from organization to organization. Mainly, four types of diversification strategies are adopted, viz, horizontal, vertical, concentric and conglomerate diversification. In horizontal diversification strategy, the same product type or market is added to the existing one. Vertifical diversification refers to the strategy of adding complementary products / services to the existing product or service line. Under concentric diversification, an organization enters into such a business which is related to its existing one in terms of technology or marketing or a combination of both. Again, conglomerate diversification which is just the opposite to concentric diversification, refers to a growth strategy where the enterprise enters into such a business which is not related to the existing business either in terms of technology or market or both.

2. **External Growth Strategies:** Under this strategy, enterprises try to grow by joining hands with enterprises outside. Some of the popular external growth strategies include:

   (a) ***Joint Venture:*** This is one of the external growth strategies through which an enterprise can plan to expand business. It indicates a temporary partnership between two or more firms to do business for accomplishing a specific purpose.Joint venture can be for producing a product, it may be for marketing the products of the multinational etc (Sarkar, Sharma and Gupta, 2004).Partners entering into a joint venture are known as co-ventures who undertake operations of the joint venture and share profits/losses in an agreed ratio, and in case of absence of any agreement, shares profits/ losses equally. Joint ventures offers the advantages of risk diversification and possibilities of utilizing advanced technology and know-how. Moreover, benefits of economies of scale are enjoyed by the partner firms. However, complex legal restrictions are a major detriment towards survival of joint ventures. It is also necessary that there should be proper understanding among co-ventures to avoid conflicts

   (b) ***Merger:*** Another form of external growth strategy is merger, where two or more existing enterprises are combined into one. It maybe in the form of one or more companies being merged into an existing company or a new company maybe formed to merge two or more existing companies. Mergers offer the following advantages:

   - Economies of scale are facilitated through utilization of the combined resources of the merged enterprises.
   - Mergers results in obtaining synergy, which refers to the combined values of the firms merged in comparison to the sum of the values of individual units. The merged firms will enjoy synergy benefits like strong Research and Development benefits, managerial capabilities and the like.
   - It eliminates competition.
   - It facilitates diversification.
   - It brings about a good public image.

   Mergers can be mainly of three types, viz, horizontal, vertical and conglomerate.

   (c) ***Sub- Contracting:*** Sub contracting , also known as ancillarisation, refers to a mutually beneficial commercial relationship between the two companies. When a particular firm cannot meet demand for its products, it enters into a contract with another firm to

Notes

carry out operations to meet demand. A sub contracting is defined as a relationship which exists when a company (called the contractor) places an order with another company (sub contractee) for the production of parts, components, sub assemblies or assemblies to be incorporated into a product sold by the contractor. This strategy offers advantages like production without investment in plant and machinery and the like.

Thus, we can observe that small business can adopt different strategies for its growth and survival. A strategic plan is a blueprint which guides an organization to develop and maintain a good image in the globalised scenario. The importance of effective strategic planning lies in the fact that it assists the enterprise to identify the opportunities and threats existing under different market conditions. This is more essential in the case of small business because these enterprises are vulnerable to the slightest change in the market, which may involve change in consumer's tastes and preferences, existence of substitute firms and fluctuations in the overall market trend. Strategic planning assists in improving business decisions and relationship with customers. Moreover, it helps in optimum utilization of available resources, thereby increasing the expected return on investment.

6.7 Financial Statements

Financial statements are necessary sources of information about companies for a wide variety of users. Those who use financial statement information include company management teams, investors, creditors, governmental oversight agencies and the Internal Revenue Service. Users of financial statement information do not necessarily need to know everything about accounting to use the information in basic statements. However, to effectively use financial statement information, it is helpful to know a few simple concepts and to be familiar with some of the fundamental characteristics of basic financial statements.

Following are the four main accounting statements:

Balance Sheet

The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date. Some analysts take the balance sheet as similar to a snapshot illustrating a company's financial health. Keeping in mind the assets and claims, it is helpful to remember the "left-right" accounting equation orientation – assets on the left side, claims on the right. In addition, there are a number of other characteristics of the balance sheet that are noteworthy, such as balancing, order of listing, valuing of items, and definitions of items.

The balance sheet must balance – that's why it's called a balance sheet. In other words, the assets must equal the claims on assets.

Each of the three segments of the balance sheet will have many accounts within it that document the value of each. Accounts such as cash, inventory and property are on the asset side of the balance sheet, while on the liability side there are accounts such as accounts payable or long-term debt. The exact accounts on a balance sheet will differ by company and by industry, as there is no one set template that accurately accommodates for the differences between different types of businesses.

A company has to pay for all the things it has (assets) by either borrowing money (liabilities) or getting it from shareholders (shareholders' equity).

Notes

Pro-Forma Balance Sheet

XYZ Corporation
For 2003 to 2006
(all numbers in $000)

ASSETS	2003	2004	2005	2006
Current Assets				
Cash	$54	$57	$59	$64
Net accounts receivable	$367	$396	$426	$435
Inventory	$177	$191	$203	$205
Temporary investment	$12	$12	$12	$12
Prepaid expenses	$2	$2	$2	$2
Total Current Assets	$612	$658	$702	$718
Fixed Assets				
Long-term investments	$42	$43	$43	$46
Land	$656	$656	$684	$727
Buildings (net of depreciation)	$903	$928	$983	$1,021
Plant & equipment (net)	$608	$631	$642	$654
Furniture & fixtures (net)	$61	$65	$68	$72
Total Net Fixed Assets	$2,270	$2,323	$2,420	$2,520
TOTAL ASSETS	$2,882	$2,981	$3,122	$3,238
LIABILITIES				
Current Liabilities				
Accounts payable	$246	$252	$258	$277
Short-term notes	$24	$25	$26	$28
Current portion of long-term notes	$14	$14	$14	$15
Accruals & other payables	$14	$14	$14	$14
Total Current Liabilities	$298	$305	$312	$334
Long-term Liabilities				
Mortgage	$897	$931	$978	$1,021
Other long-term liabilities	$443	$485	$527	$576
Total Long-term Liabilities	$1,340	$1,416	$1,505	$1,597
SHAREHOLDERS' EQUITY				
Capital stock	$300	$300	$300	$300
Retained earnings	$944	$960	$1,005	$1,007
Total Shareholders' Equity	$1,244	$1,260	$1,305	$1,307
TOTAL LIABILITIES & EQUITY	$2,882	$2,981	$3,122	$3,238

Figure 6.7. Pro forma of Balance Sheet

Source: http://www.docstoc.com/docs/526705/Pro-Forma-Balance-Sheet

Income Statement

The Income Statement shows a firm's revenues and expenses, and taxes associated with those expenses for some financial period. Where the Balance Sheet may be thought of in terms of the "left–right" orientation previously discussed, the income statement would be thought of in "top–down" terms.

A basic overview of income statement items shows how a manufacturing company might present an income statement. Income statements for other companies may appear to be slightly different, but in general the construction would be the same.

An important concept in understanding the income statement is Earnings Per Share (EPS). The EPS for a company is net income divided by the number of shares of common stock outstanding. It represents the bottom line for a company.

Companies continually make decisions on how their bottom line will be impacted since shareholders in the company are concerned with how management decisions affect individual shareholder position.

Notes

[Company Name] **Income Statement**

For the Years Ending [Dec 31, 2008 and Dec 31, 2007]

Revenue	2008	2007
Gross sales	181,683	
(Less sales returns and allowances)	(10,000)	
Net Sales	**171,683**	-
Cost of Goods Sold		
Beginning inventory		
Goods purchased or manufactured	130,028	
Total Goods Available	130,028	-
(Less ending inventory)		
Cost of Goods Sold	130,028	-
Gross Profit (Loss)	**41,655**	-
Expenses		
Advertising		
Bad debt		
Commissions		
Depreciation	16,616	
Employee benefits		
Furniture and equipment		
Insurance		
Maintenance and repairs		
Office supplies		
Payroll taxes		
Rent		
Research and development		
Salaries and wages		
Software		
Travel		
Utilities		
Web hosting and domains		
Other	16,192	
Total Operating Expenses	32,808	-
Operating Income (Loss)	**8,847**	-
Non-operating revenues, expenses, gains, losses	12,762	
(Less interest expense)	(6,113)	
Income Before Taxes	15,496	-
(Less income tax expense)	(1,069)	
Income From Continuing Operations	**14,427**	-
Below-the-Line Items		
Income from discontinued operations		
Extraordinary items		
Cumulative effect of accounting changes		
Net Income	**14,427**	-

Figure 6.8: Pro forma of Income Statement

Socne: http://images.vertex42.com/ExcelTemplates/inc statement_screenshot_2.gif

Cash Flow Statement

Notes

Cash Flow Analysis is useful for short-run planning. A historical analysis of cash flows provides insight to prepare reliable cash flow projections for the immediate future & make suitable arrangements. Cash Flow statement shows inflow – sources of cash (i.e. positive cash flow) and outflow - uses of cash (i.e. negative cash flows) during the period and the difference being 'Net Cash Flow'. This statement analyses changes in non-current accounts as well as current accounts (other than cash) to determine the flow of cash.

Statement of changes in cash position is prepared recording only inflows and outflows of cash, reflecting the net change during the period. Cash received minus cash paid during a period is the cash balance at the end of the period. If the net change in cash position has to be found out from the profit and loss account, comparative balance sheets, adjustments for the non-cash items should be made.

Types of Cash Flow

The flow or movement of cash may be of two types, namely, actual flow of cash and notional flow of cash.

Actual Flow of Cash

There may be actual or direct flow of cash 'in' and 'out' of the business under the following circumstances:

1. **Actual inflow of Cash:** This transaction results in the actual inflow of cash into the business. Similarly, there is inflow of cash when debentures are issued for cash, loans raised in cash, sale of fixed assets for cash, dividends received in cash, etc.

   Example: Issue of shares for cash:

   Cash a/c Dr

   To Share Capital a/c

2. **Actual outflow of Cash:** This transaction results in the actual outflow of cash from the business. Similarly, there is outflow of cash on repayment of loans, redemption of preference shares or debentures, payment of taxes, dividend, etc. in cash.

   Example: Purchase of Machinery for cash.

   Machinery a/c Dr.

   To Cash

Notional Cash Flow

The indirect movement of cash 'in' and 'out' of the business is referred to as 'notional flow of cash' which may take place under the following circumstances:

1. **Notional inflow of cash:** Notional inflow of cash takes place whenever a transaction results in increasing current liabilities or decreasing current assets.

   Example: Purchase of goods on credit.

   Purchases A/c Dr.

   To Creditors A/c

   This transaction results in increasing creditors to the extent of credit purchases made. Though there is no actual inflow of cash, goods purchased on credit can be converted into cash. Hence, there is notional inflow of cash

b. ***Notional outflow of cash:*** Notional outflow of cash takes place whenever a transaction results in decreasing current liabilities or increasing current assets.

Example: Sale of goods on credits:

Debtors A/c Dr.

To Credit Sales A/c

Notes

This transaction results in increasing book-debts/Bills Receivable to the extent of credit sale made. Though there is no actual outflow of cash, goods sold on credit would have been sold for cash and would cost the business in terms of materials, labor and overheads. Hence, there is notional outflow of cash i.e. it may be considered as loan advanced to customers. Similarly, when there is decrease in current liabilities, it may be due to part settlement of these dues. Hence, such decrease in a current liability is treated as notional outflow of cash.

[Company Name]

Cash Flow Statement

For the Year Ending	12/31/2008
Cash at Beginning of Year	15,700
Operations	
Cash receipts from customers	693,200
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	**147,900**
Investing Activities	
Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	**(41,400)**
Financing Activities	
Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	**(87,000)**
Net Increase in Cash	**19,500**
Cash at End of Year	35,200

Figure 6.9. Pro forma of Cash Flow Statement

Source: http://images.vertex42.com/ExcelTemplates/cash-flow-statement_screenshot.gif

Profit and Loss Account

The profit and loss account shows the profit that the business makes. This is also known as the "Trading, Profit and Loss Account". It is made up of the following components:

- Sales
- Direct Costs
- Gross Profit
- Indirect Costs

Notes

[Company Name]

[Street Address], [City, ST ZIP Code]
[Phone: 555-555-55555] [Fax: 123-123-123456]
[abc@exapmle.com]

Profit & Loss Statement

For the Period Ended ________________

Income	$	$
Sales	0000000	
Services	00000000	
Other Income	00000	
Total Income		**0000000**
Expenses		
Accounting	0000000	
Advertising	000000	
Assets Small	000000	
Bank Charges	000000	
Cost of Goods Sold	00000	
Depreciation	00000	
Electricity	000000	
Hire of Equipment	00000	
Insurance	00000	
Interest	00000	
Motor Vehicle	00000	
Office Supplies	00000	
Postage and Printing	00000	
Rent	00000	
Repairs and Maintenance	000000	
Stationary	0000	
Subscriptions	00000	
Telephone	00000	
Training/Seminars	00000	
Wages and On costs	00000	
Total Expenses		**00000000**
Profit/Loss		**00000000**

Figure 9.4: Pro forma of Profit and Loss Account

Source: http://www.finetemplates.org/wp-content/uploads/2012/06/Profit-and-Loss-Statement- Template.jpg

- Net Profit
- Taxation
- Director's Drawings
- Investment in Business

Notes

The profit and loss account is opened by recording the gross profit (on credit side) or gross loss (debit side). For earning net profit a businessman has to incur many more expenses in addition to the direct expenses. Those expenses are deducted from profit (or added to gross loss), the resultant figure will be net profit or net loss. The expenses which are recorded in profit and loss account are ailed 'indirect expenses'.

Preparation of Projected Financial Statements

Projected financial statements provide assumptions about a given company's financial situation in the future, whether it is an annual or quarterly projection. Preparing projected financial statements is a lengthy task, as it requires analysis of the company's finances, reading previous budgets and income statements, and examining the company's current financial situation to make assumptions about the business' financial potential. The process is the same for smaller, sole-proprietor businesses and well-established corporations.

When preparing the projected financial statements, there are some common pitfalls that need to be avoided:

- Don't prepare an over ambitious or unrealistic projection. It is better to prepare a conservative projection and be able to exceed your plan than it is to prepare something unrealistic and have to explain to investors why you were unable to achieve projected results.
- Don't be creative in developing your presentation of the projections. Use prescribed industry standard formats that meet Generally Accepted Accounting Principles.
- Be sensitive to the amount of detail that is presented and avoid the use of technical terms.

Give the reader the proper amount of detail to make a decision.

- Facts and extensive research should back all assumptions used in the projections. This makes your projections more believable.
- Fully disclose information on all issues relating to contracts, ownership, offering price, stock options, warrants, related party issues, risks and uncertainties. Don't mislead the reader.

6.8 Managing Cash Flows

Maintaining a healthy cash flow is one of the most important aspects of running any small business. Key to success in this area is the management of inflows and outflows, which can be monitored using a financial software package.

Analyzing Cash Flow

Before you can begin to improve your cash flow management, you should obtain a detailed view of how your company manages cash. Look at areas including accounts receivable, accounts payable, credit terms and inventory.

If you find that there is an imbalance between money coming in and money going out – for example, if you have more unpaid purchases than sales coming due - this may result in a cash flow problem during the next month.

Once you have analyzed cash flow, you can begin to look for ways to improve cash flow management. In very basic terms, your goal is to speed up inflows and delay outflows as long as possible while still meeting all of your financial obligations.

Improving Accounts Receivable

Notes

Accounts receivable make up a large proportion of the cash coming into a small business, so keeping a close eye on them is vital to improve cash flow. Collecting money may not always be easy, but there are steps you can take to ensure you don't find yourself with a cash flow crisis due to slow payments.

Stay on top of payments: Awareness of when customers' payments are coming due is very important and you can use your financial software to stay ahead of the game. Generating an accounts receivable aging report to track the habits of your customers over time will help identify which ones are likely to need to be prompted to pay.

Make it easy for them to pay: Similarly, make sure you have been prompt in your issuing of invoices. If customers regularly receive their invoices in a timely manner, you are more likely to receive your money quickly. Ensure that customers know exactly when payment is due by indicating it clearly on the invoice. Give them easy and fast options for payments, such as fax and online methods. Many owners have successfully accelerated accounts receivable collections by offering discounts to those who pay early.

Institute a credit policy: When and how do you make credit decisions about your customers? The sooner you do so, the faster you can bill them - and the faster you will get paid. Try to anticipate customers' credit needs before they ask.

For new customers, you will probably want to require a credit check and several references, a process which can be initiated ahead of their first order to speed things up. You could also consider asking for a small deposit on new orders, to make sure you have some cash on hand.

Institute a collections policy: Your policy should indicate when you begin efforts to collect on a payment. Many business owners stick to a formal reminder system that takes on a more serious tone as the lateness increases and eventually involves an attorney and, ultimately, a collection agency.

However, you may also decide to tweak your approach based on the particular customer or size of the payment due. A chronic late-payer may require different handling than someone who has slipped up on a single occasion.

Improving Accounts Payable

It is to your advantage to keep cash in hand for as long as possible, which means carefully monitoring your outflows.

CASELET: Chester Carlson

The inventor of Xerography, he was born in to an ordinary family, his father was an itinerant barber, he had a difficult childhood, he lost his mother and his father was crippled with arthritis at the tender age of seventeen. But he worked and completed his studies in these adverse circumstances got a job for himself and also realized that he needed to do something bigger for the betterment of the society.

Carlson was also looking for opportunities to do something good for self as well. While in his job he noted that there were very limited and slow means and methods to make copies of the documents. He worked late in laboratories, invented xerography and got it patented. But he did not have enough money to make a product that could make a number of copies at the touch of a button. To his despair and hard luck, no one wanted to experiment with this

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new product. In fact, he approached IBM to get his project funded. IBM hired a consultant who took 18 months to conduct a market research and indicated that there was no market for a plain paper copier; on the basis of this report IBM declined Carlson's proposal.

He struggled hard from 1936 to 1944 but was not able to find anyone (at times he lost hope but still believed in the success of his product) who could fund the project. Then in 1944, a small company Haloid made an agreement in which Haloid got the right to develop the Xerographic machine. The invention finally got its shape in 1959 when the xerographic machine was introduced (21 years after its invention). The product was a major hit, the company made billions and in fact this new machine created an entirely new generation of copying, documenting, sharing printed text! Thanks to Carlson for inventing and thanks to Haloid, who believed in the success of the invention, the lack of which could have meant the burial of an idea of a genius, that has changed the world.

Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship*, Excel Books Pvt. Ltd.

Manage your due dates: Pay an invoice on the day it is due to keep consistent cash flow. Paying early can leave you short of cash at a crucial time. You can organize your outflows by arranging electronic funds transfers with your financial software.

Extend your payment times: Speak with your vendors and see if you can work out an agreement so that payments are spread out and payment times are extended as long as possible. Also consider ways of strengthening your relationships with vendors in case you need to delay payment in the future. Remember that those who offer the lowest prices may not necessarily be the most flexible – take this into consideration when choosing who to work with.

Improving Inventory Management

Inventory management basically involves monitoring your daily sales activity and making sure your on-hand inventory reflects these patterns. You can use your retail management software to help forecast how demand will ebb and flow throughout the coming months. A common dictum is that 80 percent of your revenue comes from 20 percent of your inventory. By figuring out which of your products this applies to, you will be able to make informed decisions about how much of a certain item to order - and when. Inventory that is not being transformed into cash is useless. If you have out-of-date inventory, the best strategy is to sell it for the best price you can. Many small business experts believe that healthy cash flow is truly the secret to success. Once you have a handle on how to balance your inflows and outflows, you may find you agree.

6.9 Applications of Business Ratios

A tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratios are calculated from current year numbers and are then compared to previous years, other companies, the industry, or even the economy to judge the performance of the company. Ratio analysis is predominately used by proponents of fundamental analysis.

There are many ratios that can be calculated from the financial statements pertaining to a company's performance, activity, financing and liquidity. Some common ratios include the price-earnings ratio, debt-equity ratio, earnings per share, asset turnover and working capital.

Importance of Business Ratios

Business ratios are used to assess the performance of the firm in the following aspects:

1. Trend analysis
2. Inter-firm comparison
3. Operating efficiency analysis

4. Long-term financial viability
5. Reveals strength and weakness of business
6. Overall profitability of the business

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Financial Ratios

Financial ratios are the indicators of the financial well being of a business plan. These are used as tools to determine the financial viability of a business plan. Financial ratios are corroborated with other facts before any judgmental action is taken. These are calculated by using the information available in historical and/or forecasted balance sheets and other financial statements. Ratios are commonly used for trend analysis — tracking of financial figures over a period of time. Since the venture has no historical balance sheet or past performances, these are evaluated on the basis of the projected balance sheet and other forecasted documents. These allow comparison of the projected performance with similar industries or similar businesses. Financial ratios fall into four general categories. These can be classified as:

Liquidity Ratios

Liquidity ratios are indicators of the venture's capability to meet short-term financial obligations. Short term obligations imply cash demand to be met in next 12 months. Maximum use of this ratio is made by the providers of the short term credit to the ventures. Three of the most common liquidity ratios are (a) current ratio or working capital ratio, (b) quick ratio or acid test ratio, and, (c) cash ratio.

The current ratio is the ratio of current assets to current liabilities:

$$\textbf{Current Ratio} = \frac{\text{Current Ratio}}{\text{Current Liabilities}}$$

Providers of short-term creditors prefer high current ratio as it reduces their risk of non-payment. It signifies venture liquidity. Contrarily, shareholders are known to prefer low current ratio as it implies liquidity deployment to create more wealth. Values for the current ratio vary from industry to industry and venture to venture in same industry. Ventures exposed to cyclical upswing and downturns maintain high incidence of current ratio to remain liquid during downturns. A current ratio of 1 or more than 1 is considered acceptable for most of the industries. Any opinion should not be formed exclusively on the basis of the current ratio of the venture. Many other factors need to be considered before any conclusion can be drawn. A high current ratio of more than 2, indicates excessive current assets in the form of inventory and under deployed financial resources. A low ratio of less than 1, indicates that venture may have difficulty in meeting short-term financial obligations.

The quick or the acid test ratio is the ratio of current assets — inventory to current liabilities: The component of inventory in current ratio may consist of certain inputs or raw materials that may not be possible to be liquidated at short notice. The liquidation value may also be uncertain.

The quick ratio is a refinement on the current ratio as it excludes inventory from the current assets of the venture. Such exclusion, removes the ambiguity created in the liquidity position of the venture by uncertain inventory components.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

The current assets that are used to calculate quick ratio (acid test ratio) include cash, accounts receivable and notes receivable.

Cash ratio is one of the most conservative of all liquidity ratios. It is an extreme refinement on quick ratio. It excludes all current assets of the venture except the absolutely liquid assets available. These consist of cash in hand or bank and other cash equivalents.

Cash Ratio

The cash ratio is ratio of cash + cash equivalent securities to current liabilities of the venture.

It is the most robust indicator of venture ability to meet current liabilities. Higher cash ratio could be a cause of concern as it represents the situation in which the resources may not be optimally deployed for creation of wealth.

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Profitability Ratios

Profitability ratios are indicators of measures of the success of the venture in generating profits for the entrepreneur. A wide range of ratios is used to measure profitability. We shall be concentrating on the three major indicators. These consist of, (a) gross profit margin, (b) return on assets, and, (c) return on equity or return on investment (ROI).

The gross profit margin indicates the gross profits earned by the venture on the sales. It accounts for the cost of the goods sold, without including other costs.

$$\text{Gross Profit Margin} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}}$$

Lower gross profit margin ratio indicates that earnings that are needed to pay other costs, including fixed costs are low. It is also an indicator of the venture inability to control its production cost. A higher gross profit margin indicates production efficiency and venture capability to compete during intense rivalry and in markets characterised by low entry barriers.

Return on assets is an indicator of determining venture efficiency in utilizing assets to create wealth/profit.

$$\text{Return of Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Lower return on assets is an indicator that the venture earnings are low for the amount of assets deployed. It can be used to determine the venture efficiency *viz-a-viz* industry firms.

Return on equity or return on investment (ROI) is one of the basic measures for determination of the profits by the equity holder on the investments. It is derived by determining the net income generated by the venture on the equity.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Stockholder's Equity}}$$

Operations Ratios

These include the ratios used to measure internal operational efficiency of the venture. Any isolative interpretation derived from these will largely be unproductive, sometimes even misleading. These should be viewed in conjunction with other ratios and industry environment. We shall be focusing only on three types of operations ratios that shall include, (a) accounts receivable turnover ratio, (b) inventory turnover ratio, and (c) average days payable ratio.

$$\text{Accounts Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

It measures how liquid accounts receivable are for the complete year. Average accounts receivable is the average of the opening and closing balances for all the accounts receivables. It informs number of rotation of the receivables during one financial year. It is generally evaluated as being either positive or negative in comparison with the industry firms of similar types. Higher turnover rate is indicator of prompt payment by the customers and resulting in less investment in accounts receivables.

Inventory turnover ratio is determined by cost of goods sold to average inventory. Generally, it is calculated as:

$$\frac{\text{Sales}}{\text{Inventory}}$$

It is also possible to be calculated as:

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Notes

The first method of calculation is more frequently used, compared to cost of goods sold and average inventory. The second method is used as sales are recorded at market value, while inventories are recorded at value of procurement or cost. Use of average inventory instead of ending inventory allows reduction of seasonal factors that may distort the correct ratio. It measures the number of times inventory has been turned over in a financial year. It also indicates the inventory quality in terms of its obsolescence and efficiency of inventory management practices adopted by the venture.

High inventory turnover ratio is generally considered a positive sign of the venture efficiency. If the venture has deployed significant resources in inventory, it is all the more important to keep a track of this ratio as it helps in formulating proper financial plans. If the venture is turning the inventory slowly, it would impact the cash flow of the venture. As with other ratios, it needs to be compared with industry ratios. Another interpretation is, while low turnover indicates poor sales and maintenance of extra inventory, affecting the blockage of funds and increasing inventory holding cost and unproductive investments, a high ratio could be indicative of either strong sales or improper purchases.

Average days payable ratio measures the average days, the venture takes to pay its suppliers.

$$\text{Average Days Payable} = \frac{\text{Days in the period} \times \text{Average accounts payable}}{\text{Purchases on credit}}$$

The "Days in the Period" denotes the number of days in the measurement period, which normally consists of 365 days (One Financial Year). "Average Accounts Payable" is arrived at by taking into consideration the opening and closing balances of accounts payable for the measurement period. If accounts payable period of the venture is longer than the collection period, it may be indicative of improper payment procedures or maintenance of poor cash position. It may affect the credit rating of the venture. Contrarily, if the accounts payable period of the venture is shorter, it indicates the venture is unable to maximize the benefits of purchases on credit, though it can meet suppliers' payment terms.

Leverage Ratios

These ratios measure financial leverage of the venture to meet financial obligations it has created. Additionally, these indicate the capital structure of the venture and resultant strength and weaknesses. The most significant ones focus on debt, equity, assets and interest features of the venture. These also inform venture's mix of operating costs (fixed and the variable), and how changes in output will be affecting operating income. Ventures with relatively higher fixed costs, having achieved the breakeven point (BEP) post higher amount of operating revenue when output is increased compared to the ventures that have higher variable cost. It is brought about by the fact that costs have already been incurred and after achieving the break even point any increase in sales transfers to the operating income. Contrarily, in the ventures with high variable costs, additional sales do not impart any such benefit because of higher incidence of variable cost in the output. We shall be considering three types of leverage ratios and their implications. These include (a) debt-to-equity ratio, (b) degree of combined leverage1 and, (c) degree of operating leverage.

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Debt to equity ratio is a measure of venture's financial leverage. It is arrived at by dividing total liabilities of the venture by the equity. It informs the proportion of equity and debt in the capital structure of the venture.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

A further precision is possible if only interest bearing, long-term debt is used instead of total liabilities. High debt/equity ratio generally implies venture financing by debt and higher interest burden that can affect the profitability in the event of downturn. High debt/equity ratio also indicates greater control by the entrepreneur. Debt-equity ratio also varies from industry to industry. Capital-intensive industries have higher incidence of debt-equity ratio relative to less capital-intensive industries.

Degree of combined leverage ratio summarizes the combined effect the Degree of Operating Leverage (DOL), and the degree of financial leverage has on Earnings Per Share (EPS), given a particular change in sales. This ratio can be used to help determine the most optimal level of financial and operational leverage to use in any firm. Additionally, it indicates the effect this combination or variation in this combination has on venture earnings.

$$\text{Degree of Combined Leverage Ratio} = \frac{\text{\% Change Earning Per Share (EPS)}}{\text{\% Changes in Sales}}$$

One interpretation of the high level of combined leverage is higher amount of risk associated with the venture as high leverage may imply higher fixed costs.

Degree of operating leverage indicates the effect a particular amount of operating leverage has on venture's Profit Before Interest and Taxes (PBIT).

Higher level of operating leverage will impart higher amount of volatility to venture profits before, interest and tax relative to the changes in the sales.

$$\text{Degree of Operating Leverage} = \frac{\text{\% Change in Profit Before Interest \& Taxes}}{\text{\% Changes in Sales}}$$

This ratio also assists in understanding the effect a specific level of operating leverage exerts on earning potential of the venture. This is possible to be used as a beacon for arriving at optimum level of operating leverage so that profit before interest and taxes may be maximized.

6.10 Sources of Finance: Debt and Equity

In order to prepare an estimation of capital requirement, various types of expenditure that should be taken into account are promotion and formation expenses, expenses for purchasing fixed assets, expenses for expansion of business, expenses for current assets and cost of raising capital, etc.

1. **Creation of internal resources:** This source, though mobilized in large sized concerns, is little used in small establishments. This source comprises provision for taxation, provision for depreciation and reserve fund. The newly started enterprises cannot possibly use this source.
2. **Taking public deposits:** The large undertakings, with the object of procuring middle-term capital, take up term-deposit from the public. The public are given deposit certificate. Though, it is one of the main sources of financing for established concerns, it is not at all possible to take up this opportunity for new establishments.
3. **Financing by commercial banks:** The commercial banks have nowadays met the short-term financial requirements with the supply of finance to the companies. The commercial banks have been supplying short-term capital through discounting of bill, cash credit and advance payment.

4. **Financing by financial institutions**: Examples includes IFC, IDBI, ICICI, SFC, SIDBI, etc.
5. ***Financing by other investment institutions:*** A number of investment institutions have been developed in both public and private sector to supply finance to the new enterprises like LIC, GIC, Tata Investment Trust, etc.
6. **Personal finance:** In case of starting a new venture, the entrepreneur provides himself for supplying capital by investing his own or family savings. These include cash and personal assets that can be converted into cash. In most cases, the small-scale businesses and family businesses are developed by entrepreneur's own capital. For this, an entrepreneur might have set himself some months or years ago and must have already prepared financially for it. But no large-scale enterprise can be developed by financing of entrepreneur's personal capital.
7. **Government grants:** In specific section, there is provision for grants from government to be financed to new enterprises. Government usually provides adequate finance as grant and subsidy to those cases which are recognised as priority sectors. Thus, by means of grant and subsidy from government, capital is supplied to the entrepreneurs.
8. **Others:** Apart from the various sources stated above, the indigenous money-lenders or bankers supply capital on conditional basis to the new entrepreneur. This may be procured from venture capital firm also. Capital may be provided by lease financing.

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Equity Financing

If the new venture is of company form of organization, then it can issue shares to public subject to the approval of the Company Law Board and thereby procure necessary capital for the enterprise. The share represents ownership. The value of a share is not very much.

So, persons desirous of becoming owner of an enterprise can purchase in their names. The capital raised by sale of shares is called the share capital.

Whenever an entrepreneur intends to finance from market, equity financing is a common method. Equity means capital which is invested by the owner or owners in the business and on permanent basis, it is a risk-full investment. Equity or ownership capital is the capital supplied by owner in single ownership business or by owners in partnership business. And in case of private companies, the entrepreneurs and his relatives and friends supply capital and in case of public companies, capital is procured by selling shares to the public. This equity capital or ownership capital is supplied by equity shareholders. The various methods of equity financing are:

- Entrepreneur's personal savings and assets.
- Loans taken from relatives and friends.
- Personal loan taken from indigenous money lender.
- Financing through sale of shares.
- Ordinary or equity shares.

Debt Financing

In order to raise more capital, the enterprise procures capital by sale of debentures. A debenture is an acknowledgment of a debt under the seal of an organization. Those, who purchase debentures are called the debenture-holders. The debenture-holders cannot become the owners of the enterprise but be recognized as its creditors.

Debt financing refers to such scheme of financing by which capital is raised through the issue of bonds, debentures and mortgages. There are several important ways to obtain debt financing, such as money raised through the sale of bonds, debentures and commercial papers. Small enterprises have fewer choices than large firms for obtaining debt financing. These enterprises are limited by their size. They are local enterprises with small inventories or markets that provide few assets for collateralizing loans. Small entrepreneurial ventures created with the intent to grow are still in their development stages and are risky. They have not yet established their level of performance or asset strength to underwrite substantial debt.

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CASE STUDY: It's a Hard Core Job to Implement Core Banking Services at Mera Bank

Mera Bank introduced core-banking services to mesmerize the demanding customers. In doing so it introduced organization-wide changes in infrastructure, technology and competitive services to customers. But hold on- are employees ready to accept the change suggested by the top management?

As we all know, the Banking Industry has observed sea changes after the amendments. The Banking Regulation Act in 1993, which allowed the private sector banks to enter this industry. Privatization brought in competition, cost cutting, enhanced customer expectations. As a result, quickness, promptness, and urge to retain the loyalty of the customers, multiplicity of services to customers, sophistication and modern technology have become the password to success.

Changing Trends in the Banking Industry

Indian banking can be broadly categorized into nationalized (government-owned), private banks and specialized banking institutions. The Reserve Bank of India, acts as a centralized body monitoring any discrepancies and shortcomings in the system. Since the nationalization of banks in 1969, the public sector banks or the nationalized banks have acquired a place of prominence and have since then seen tremendous progress. The need to become highly customer-focused has forced the slow-moving public sector banks to adopt a fast track approach. These customer-friendly programmes included revamping of the product and service portfolio by introducing new product and service schemes (like credit cards, hassle-free housing loan schemes, educational loans and flexi-deposit schemes) integration of the branch network by using advanced networking technology and customer personalization programs (through ATMs and anytime banking etc.). Many banks have started capitalizing on the recent stock market surge by adding (Initial Public Offering) IPO financing options and schemes in their product mix. IPO finance has received a positive response from the investors and is becoming popular amongst the business community. The objective of all these strategies is very clear - to bridge the service and product gap that was inherent in the banking system. To cater to the increasing customer demands and the surge in business volumes, many public sector banks have ploughed back funds to invest heavily in technology upgrades and systems like LANs, WANs, VSATs, etc.

Marketing and brand-building programmes were also given a new thrust in the new liberalized banking scenario. Promotional budgets were hiked to cater to the new and large discerning target audience. Banks were now keen on marketing their products and services through various mediums to reach their core customers. Direct marketing, Internet marketing, hoarding, press ads, television sponsorships, image makeovers, etc. became an integral part of a bank's marketing mix. To meet the personalized needs of the customer and in order to differentiate its services, banks repositioned themselves in specialized fields, like housing loans, car finance, educational loans etc. to optimally service the customer. Permission marketing became the new strategy that banks began to propound i.e. feeding the customer (with his or her consent) with product and service information and thereby enticing him towards the bank's product-service portfolio.

Waking up to these events in the private and public sector banks, Mera Bank also introduced Core Banking services to its customers.

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Core Banking at Mera Bank: A Modern Intervention to Survive in the Highly Competitive Market.

The Bank has over the years, earned the reputation of being a techno-savvy bank and is one of the forerunners amongst public sector banks in the field of technology. It is one of the pioneer public sector banks, which launched Core Banking Solution in 2000. As of June 2006, more than 70 branches/extension counters of bank are networked under Core Banking Solution, powered with the centralized technology platform. The Bank has launched multiple Electronic Delivery Channels and has installed nearly 100 networked ATMs. Online Tele-banking facility is available to all its Core Banking customers. The multi- facility versatile Internet Banking Solution provides extensive information, in addition to the online transaction facility, to both individuals and corporates banking with the Core Banking branches of the Bank. In addition to regular banking facilities, customers today can also avail of a variety of value-added services like cash management service, insurance, mutual funds and Demat from the Bank.

Mera bank had introduced Core Banking facilities to its customers, which involved series of changes at Mera Bank which included:

1. Adopting a web mindset
2. Latching on to the first mover's advantage
3. Recognizing the core competencies
4. Ability to deal multiplicity with simplicity
5. Senior management initiative to transform the organization from inward to outward looking
6. Aligning roles and value propositions with the customer segments
7. Redesigning optimal channel portfolio
8. Acquiring new capabilities through strategic alliances
9. Corporate brand-building exercises which even includes infrastructure revamping (like fully air-conditioned banks)
10. Computerization of all the banking transactions
11. Nationwide networking of the bank through WAN, LAN
12. Customer personalization programmes through ATMs and anytime banking
13. Improved services like hassle-free housing loan schemes, educational loans and flexi-deposit schemes)
14. 8 to 8 banking in order to attract more and more customers.

The Problem

Samina Rafat, faculty in one of the premier management institutes, a customer for almost seven years with Mera Bank was really happy to know about the positive developments at Mera Bank especially 8-8 banking. She was certainly a loyal customer for she not only had saving bank salary account but had also taken a home loan from Mera Bank. On her way to the bank she was thinking "Oh! Mera Bank has given me so much relief, now I will be able to do all my banking operations after my office hours. How can I forget those days when all my work at bank remained pending for months as it was very difficult to take out time from my busy work schedule". When she entered the bank after almost a year, she was happy to see the conventional public sector bank appearance had been taken over by a world class infrastructure with fully air-conditioned work area. She complimented Mr Chauhan (one of the employees) for the wonderful advancements as she waited patiently for passbook updation. It was only after she requested for cash withdrawal that she realized that "all that was glittering was not gold". As soon as she gave a cheque for encashment to one of the employees he immediately reverted back with scornful tone "Madam we have closed down the cash and you can only get cash tomorrow between 10-3."

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"But then I was being informed that things have changed at Mera bank." she replied. "You mean that you really think that we all can slog ourselves from 8 to 8? Come out of your whims and fancies madam, with no extra staff to support 8-8, this is just a temporary change and we will make sure that we revert back to the earlier 10-5 work schedule."

Samina turned ablaze at such cold treatment that she received 'from her own bank' as she puts it. She had a heated altercation with the employee and left a complaint to the branch manager.

The branch manager is now perplexed; he is thinking on what went wrong in introducing the change which was planned in advance and discussed. Theoretically, everything was streamlined: loyal employees, good financial condition, sound training system to cope up the challenges thrown by the changing banking system.

The branch manger is pondering on his line of action regarding the complaint: should he ignore the complaint, should he issue a charge sheet against the employee, should he call for a meeting of all the employees on this issue or should he look for outside help from a consultant? For this is not the first complaint that he has received and this is not the only employee against whom the complaint has been received. The fact is that employees are not able to accept the change (read: the increased work hours). Which clearly indicates that the problem lies in the system and needs immediate intervention.

Questions

1. What suggestion do you make to Mera Bank regarding the above problems?
2. Do you think employees should be made a part of planning for organizational restructuring? Give reasons for your answers.
3. What suggestion do you make to overcome the above problem?

Source: Lall Madhurima, (2009), *Entrepreneurship and Business Plan*, Excel Books Pvt. Ltd.

6.11 Selecting the Target Market

Target market represents a group of individuals who have similar needs, perceptions and interests. They show inclination towards similar brands and respond equally to market fluctuations. Individuals who think on the same lines and have similar preferences form the target audience.

Target market includes individuals who have almost similar expectations from the organizations or marketers.

Obese individuals all across the globe look forward to cutting down their calorie intake. Marketers understood their need and came up with Kellogg's K Special which promises to reduce weight in just two weeks. The target market for Kellogg's K Special diet would include obese individuals.

Individuals who sweat more would be more interested in buying perfumes and deodorants with a strong and lasting fragrance.

The selection of a target market is a very important decision for a firm as it requires significant effort and commitment to implement an appropriate and targeted marketing mix.

Target marketing can be a particularly valuable tool for small businesses, which often lack the resources to appeal to large aggregate markets or to maintain a wide range of differentiated products for varied markets. Target marketing allows a small business to develop a product and a marketing mix that fit a relatively homogenous part of the total market. By focusing its resources on a specific customer base in this way, a small business may be able to carve out a market niche that it can serve better than its larger competitors.

Identifying specific target markets – and then delivering products and promotions that ultimately maximize the profit potential of those targeted markets – is the primary function of marketing management for many smaller companies.

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Example: A manufacturer of fishing equipment would not randomly market its product to the entire U.S. population. Instead, it would conduct market research, using such tools as demographic reports, market surveys, and trade shows, to determine which customers would be most likely to purchase what it offers. It could then spend its limited resources in an effort to persuade members of its target group(s) to buy. Advertisements and promotions could be tailored for each segment of the target market.

There are infinite ways to address the wants and needs of a target market. For example, product packaging can be designed in different sizes and colors, or the product itself can be altered to appeal to different personality types or age groups. Producers can also change the warranty or durability of the good or provide different levels of follow-up service. Other influences, such as distribution and sales methods, licensing strategies, and advertising media, also play an important role. It is the responsibility of the marketing manager to take all of these factors into account and to devise a cohesive marketing program that will appeal to the target customer.

Small business enterprises are also encouraged to continually examine their marketing efforts to make sure that they keep pace with changing business realities.

Example: Business start-ups typically accept any kind of legitimate business in order to pay the bills and establish themselves as a viable entity. But long after the start-up has blossomed into a solid member of the local business community, it may continue to rely on these early accounts rather than casting its net for more promising clients.

6.12 Market Strategy

Small Businesses can gain a competitive advantage over larger competitors by tailoring their products or services to meet the demands of the individual customer. This tailoring can be done through the means of the product/service offered, price, promotion, and distribution. The above are known as the marketing mix. Another advantage is that small businesses offer a more personalized interaction with the customer.

First of all, a marketing strategy that you should take advantage of both offline and online is networking. This is probably the single most important strategy you can look into. As a small business, you will find that one of your first and most important hurdles is simply getting people to know that you exist. If people don't know you've started a small business and that you have amazing widgets or services to sell, they're not going to ask to buy those widgets or hire you for those services, regardless of how wonderful and amazing they might be. So your first job as a small business entrepreneur will be to get the word out.

CASELET: mGinger

Ginger is the first of its kind opt-in permission-based mobile marketing platform in India. mGinger is a service providing targeted advertisements on mobile phones. The advertisements are targeted on a consumer base who have opted-in to this service. The consumer base is built through a registration process in which the consumers specify their commercial interests, maximum number of ads they would like to receive in a day, convenient time-slots and their demographic information. Apart from getting information related to their particular interests, the consumers also receive monetary incentives for every ad they themselves receive and for each ad received in their network upto two levels of referrals. Advertisers leverage the service to search for and select consumers based on their commercial interests, location, demographics and other criteria and send specific advertisements to their target audience. And all this without the fear of incurring even a single consumer's wrath. The mGinger platform solves critical problems like content composition, cost of campaign and return on investment measurability for advertisers.

Source: Janakiram.B, (2010). "Role and Challenges of Entrepreneurship Development". Excel Books Pvt. Ltd.

Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. In the real world, this can be done through print and flyer ads, stationary, vehicle tags, and window displays, while on the internet, you can pursue things like pay per click marketing.

Notes

A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets or customers:

- *Current product/current market:* Market penetration is a strategy of increasing your share of existing markets. You might achieve this by raising customers' awareness of your products and services or finding new customers. For further information on planning effective marketing communications see the Related Items section below for a link to the Factsheet: Planning marketing communications.
- *Current product/new market:* Market development is a strategy of finding and entering new markets with your current product or service range. The new market could be a new region, a new country or a new segment of the market. For further information on selecting and entering new markets see the Related Items section below for a link to the Factsheet: Entering new markets.
- *New product/current market:* Product development is a strategy for enhancing benefits you deliver to customers by improving your existing products and services or developing new ones.
- *New product/new market:* Diversification is a strategy that usually carries high costs and high risks. It often requires firms to adopt new ways of doing business and so has consequences far beyond simply offering new products/services in a new market. It is therefore usually a strategy to be adopted when other options are not feasible.

6.13 Pricing Strategies and Marketing of Services

Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product. Barter is the exchange of products for other products. When developing a marketing program, an organization can compete on the basis of price and non-price factors.

Pricing Method

1. **Mark up Pricing:** The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup of their costs.

   Example: Toaster Manufacturer- Variable cost per unit ₹ 10

   Fixed Cost ₹ 300,000

   Expected Unit sales ₹ 50,000

   The manufacturer's unit cost is given by

   Unit Cost = VC + (FC/Unit Sales)

   = ₹ 10 + (300,000/50,000) = ₹ 16

   Now assume the m–anufacturer wants to earn a 20% markup on sales. The manufacturer's markup price is given by:

   Unit Cost

   $$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired return on sales})} = 16/(1\text{–}.02) = ₹\ 20$$

The manufacturer would charge dealers ₹ 20 per toaster and make a profit of ₹ 4 per unit. Markup varies considerably among different goods. Markups are generally higher on seasonal items (to cover the risk of not selling), specialty items, slow moving items, items with high storage and handling cost.

2. **Target-Return Pricing:** The firm determines the price that would yield its target rate of return on investment (ROI). Target pricing is used by General Motors, which prices its automobiles to achieve a 15 to 20% ROI.

$$\text{Target-Return Price} = \text{Unit Cost} + \frac{\text{Desired return} \times \text{invested capital}}{\text{Unit sales}}$$

3. **Perceived -Value Pricing:** An increasing number of companies are basing their price on the product's perceived value. They see the buyer's perception of value, not the seller's cost, as the key to pricing. They use the non-price variables in the marketing mix to build up perceived value in the buyers' minds. Price is set to capture the perceived value.
4. **Value Pricing:** In recent years, several companies have adopted value pricing in which they charge a fairly low price for a high-quality offering. Value pricing says that the price should represent a high-value offer to consumers.
5. **Going rate pricing:** In going-rate pricing, the firm pays less attention to its own costs or demand and bases its price largely on competitor's price.
6. **Sealed-bid pricing:** Competition-oriented pricing is common where firms submit sealed bids for jobs. The firm bases its price on expectations of how competitors will price rather than on a rigid relation to the firm's costs or demand. The firm wants to win the contract, and winning normally requires submitting a lower price than competitors. At the same time, the firm cannot set its price below cost without worsening its position.

Notes

6.14 Various Strategies for Pricing

Following are few of the strategies for pricing a product:

Premium Pricing

Use a high price where there is a unique brand. This approach is used where a substantial competitive advantage exists and the marketer is safe in the knowledge that they can charge a relatively higher price. Such high prices are charged for luxuries such as Cunard Cruises, Savoy Hotel rooms, and first class air travel.

Penetration Pricing

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV. These companies need to land grab large numbers of consumers to make it worth their while, so they offer free telephones or satellite dishes at discounted rates in order to get people to sign up for their services. Once there is a large number of subscribers prices gradually creep up. Taking Sky TV for example, or any cable or satellite company, when there is a premium movie or sporting event prices are at their highest – so they move from a penetration approach to more of a skimming/premium pricing approach.

Economy Pricing

This is a no frills low price. The costs of marketing and promoting a product are kept to a minimum. Supermarkets often have economy brands for soups, spaghetti, etc. Budget airlines are famous for keeping their overheads as low as possible and then giving the consumer a relatively lower price to fill an aircraft. The first few seats are sold at a very cheap price (almost a promotional price) and the middle majority are economy seats, with the highest price being paid for the last few seats on a flight (which would be a premium pricing strategy). During times of recession economy pricing sees more sales. However it is not the same as a value pricing approach which we come to shortly.

Notes

Price Skimming

Price skimming sees a company charge a higher price because it has a substantial competitive advantage. However, the advantage tends not to be sustainable. The high price attracts new competitors into the market, and the price inevitably falls due to increased supply.

Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. New products were developed and the market for watches gained a reputation for innovation.

Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example Price Point Perspective (PPP) 0.99 Cents not 1 US Dollar. It's strange how consumers use price as an indicator of all sorts of factors, especially when they are in unfamiliar markets. Consumers might practice a decision avoidance approach when buying products in an unfamiliar setting, an example being when buying ice cream. What would you like, an ice cream at $0.75, $1.25 or $2.00? The choice is yours. Maybe you're entering an entirely new market. Let's say that you're buying a lawnmower for the first time and know nothing about garden equipment. Would you automatically by the cheapest? Would you buy the most expensive? Or, would you go for a lawnmower somewhere in the middle? Price therefore may be an indication of quality or benefits in unfamiliar markets.

Product Line Pricing

Where there is a range of products or services the pricing reflects the benefits of parts of the range. For example car washes; a basic wash could be $2, a wash and wax $4 and the whole package for $6. Product line pricing seldom reflects the cost of making the product since it delivers a range of prices that a consumer perceives as being fair incrementally – over the range.

If you buy chocolate bars or potato chips (crisps) you expect to pay X for a single packet, although if you buy a family pack which is 5 times bigger, you expect to pay less than 5X the price. The cost of making and distributing large family packs of chocolate/chips could be far more expensive. It might benefit the manufacturer to sell them singly in terms of profit margin, although they price over the whole line. Profit is made on the range rather than single items.

Optional Product Pricing

Companies will attempt to increase the amount customers spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other. Again budget airlines are prime users of this approach when they charge you extra for additional luggage or extra legroom.

Captive Product Pricing

Where products have complements, companies will charge a premium price since the consumer has no choice. For example a razor manufacturer will charge a low price for the first plastic razor and recoup its margin (and more) from the sale of the blades that fit the razor. Another example is where printer manufacturers will sell you an inkjet printer at a low price. In this instance the inkjet company knows that once you run out of the consumable ink you need to buy more, and this tends to be relatively expensive. Again the cartridges are not interchangeable and you have no choice.

Product Bundle Pricing

Notes

Here sellers combine several products in the same package. This also serves to move old stock. Blue-ray and videogames are often sold using the bundle approach once they reach the end of their product life cycle. You might also see product bundle pricing with the sale of items at auction, where an attractive item may be included in a lot with a box of less interesting things so that you must bid for the entire lot. It's a good way of moving slow selling products, and in a way is another form of promotional pricing.

Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts. Promotional pricing is often the subject of controversy. Many countries have laws which govern the amount of time that a product should be sold at its original higher price before it can be discounted. Sales are extravaganzas of promotional pricing!

Geographical Pricing

Geographical pricing sees variations in price in different parts of the world. For example rarity value, or where shipping costs increase price. In some countries there is more tax on certain types of product which makes them more or less expensive, or legislation which limits how many products might be imported again raising price.

Value Pricing

This approach is used where external factors such as recession or increased competition force companies to provide value products and services to retain sales e.g. value meals at McDonalds and other fast-food restaurants. Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product. In many ways it is similar to economy pricing. One must not make the mistake to think that there is added value in terms of the product or service. Reducing price does not generally increase value.

Services Marketing

Service industries are quite varied. The government sector, with its courts, employment services, hospitals, loan agencies, military services, police and fire departments, post office, regulatory agencies, and schools, is in the service business. The private non-profit sector, with its museums, charities, churches, colleges, foundations, and hospitals, is in the service business. A good part of the business sector, with its airlines, banks, computer-service bureaus, hotels, insurance companies, law firms, management-consulting firms, medical practices, motion-picture companies, plumbing-repair companies, and real-estate firms, is in the service business. Many workers in the manufacturing sector, such as the computer operators, accountants, and legal staff, are really service providers. In fact, they make up a "service factory" providing services to the "goods factory". Not only are there traditional service businesses, but also new types keep popping up to serve the needs of a changing population.

Kotler (1996) defines service as an activity that one party offers another that is essential, intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. The four main characteristics of service are intangibility, inseparability, variability and perishability.

Perishability

Notes

Perhaps of all the suggested special characteristics of service products, this is one of the most difficult to appreciate. *Why?* Services are highly perishable compared to physical products. But how could, for example, the services of say, an airline be considered to be more perishable than, say, fresh food and vegetable products?

The reason is that unlike most physical products, many services cannot be stored. For instance, if an airline does not sell all the seats on a particular flight, then those seats or rather the sales revenue of filling of them would have carried, has immediately and irreversibly gone.

Intangibility

Physical products in the store are widely displayed for customers to see, feel, touch, weigh or sniff at before deciding whether or not to buy.

Comparing this with the choice of the service of say, an insurance policy. You cannot touch, see or smell the products before choosing, although clearly you can make some assessment based on past experience, word of mouth, or even the location and decor of the insurance office.

The intangible nature of most services gives rise to special problems both for suppliers and consumers.

Variability

In the production and marketing of physical products, companies have increasingly paid special attention to ensuring consistency in quality, feature, packaging, and so on. More often than not all customers can be sure that every bottle of Coke he/she buys, even in a life-time of purchases, will not vary. The provision of services, however, invariably includes a large measure of the "human element".

Indeed, with many services, we are purchasing nothing else but the skills of the suppliers. Because of this, it is often very difficult for both supplier and consumer to ensure a consistent "product" or quality of service.

Inseparability

A key distinguishing feature of service marketing is that the service provision and provider are inseparable from the service consumption and consumer. For example, we cannot take a hotel room home for consumption; we must "consume" this service at the point of provision. Similarly, the hairdresser needs to be physically present for this service to be consumed.

This has implications both for channels of distribution and scale of operations.

6.15 Export Marketing

Export marketing means exporting goods to other countries of the world. It involves lengthy procedure and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

According to B. S. Rathor, "Export marketing includes the management of marketing activities for products which cross the national boundaries of a country".

Export marketing has wider economic significance as it offers various advantages to the national economy. It promotes economic/business/industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits.

Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger.

Notes

CASE STUDY: Google Adwords

A success story of Aryan Florist

A Bouquet of Success

Aryan Florist started using AdWords with a modest budget of ₹ 200 per day. Business scaled phenomenally and the company has increased its budget manifold. Today, Ad-Words accounts for 90% of its business.

Planting the Seed

Aryan Florist was established by Rishi Sachdev in 2004 with the vision of catering to the floral needs of customers not only in India, but also those living abroad who want to send flowers in India. Based in Chandigarh, the company provides excellent service in all villages of Punjab. It has a track record of delivering flowers within 3-4 hours of ordering, even to the remotest village in Punjab.

Aryan Florist has now grown to cater to the floral needs of consumers in more than 100 cities of India.

Success Blooms

Aryan Florist was introduced to Google AdWords in 2004. Rishi says that he started with a modest budget of ₹ 200 per day, and today it has increased to around ₹ 2000-3000 per day, due to the value derived from this online medium.

Business has scaled phenomenally using AdWords, especially with specific seasonal campaigns he has received more flower orders than ever before. Rishi says that for the Valentine's Day campaign he had tweaked the current campaigns to have ad texts and keywords specific to Valentine's Day, and also increased his budget to as high as ₹ 10,000 per day.

Even when this campaign was run for a small period only (Feb 7- Feb 14), website traffic increased from 100 visits per day to 600-700 visits per day, giving 70-75 orders in that week. Also, out of these 70-75 customers who purchased his products, 30-35 still visit the website and continue to place orders.

"The flexibility to change your AdWords campaign budget at any time and adjust campaign geo-targeting at the country, region and city levels are the two most important features of Google AdWords," feels Rishi.

Rishi is also appreciative of the support received from the Google AdWords specialists, and feels that the best part is that all his queries get answered within a turn around time of 24 hours!

Today, AdWords accounts for 70% of its web traffic and for 90% of its business, proving to be a key ingredient in the success formula for Aryan Florist.

Question

What is the business idea of Google Adwords?

Source: Janakiram.B, (2010), *Role and Challenges of Entrepreneurship Development*, Excel Books Pvt. Ltd.

6.16 Summary

Notes

The small scale sector is highly vulnerable to changes in the business environment. The slightest change can make it difficult for the small business to survive. Therefore, it is essential for the management to chalk out different strategies for ensuring its growth and development. Strategies for small business can be mainly categorized into two types, viz, internal and external growth strategies. Internal growth strategies include expansion and diversification and external strategies include joint ventures, mergers and sub contracting. Formulation of strategies involves steps like business evaluation, defining the vision, mission and objectives of the organization and strategy implementation. If implemented successfully, it will result in enhancing the effectives of small business operations in the long run alongwith ensuring its growth and survival.

Financial resources are essential for business, because it is called the life-blood of a business. Financing refers to procurement of finance for the enterprise and its proper utilization to

fulfill the objectives. Finance is the backbone of an enterprise.

Capital is needed to start and operate the business, and make it grow. Financing means those types of business activities which are directed for procurement and conservation of the capital fund needed for meeting the financial requirements as well as fulfillment of overall objective of the firm. Financing for new enterprises occupies an important role.

A financial plan involves several forecasting techniques: the forecasting begins with estimates for production and sale, followed by cash budget, working capital, projections in relation to P&L account, cash flow and balance sheet. From these projections the break-even of the company can be calculated and ratios can be analyzed to study the financial feasibility of the proposed business venture. It is important to mention that because of external and internal factors affecting business the break-even and hence profit generation for the business begins only after the completion of first year for most of the organization. The projections are made for three consecutive years to give a better picture of the proposed business in terms of financial viability. Users of financial statement information do not necessarily need to know everything about accounting to use the information in basic statements.

The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date. An important concept in understanding the income statement is Earnings Per Share (EPS). The EPS for a company is net income divided by the number of shares of common stock outstanding. It represents the bottom line for a company.

Target market represents a group of individuals who have similar needs, perceptions and interests. Target market includes individuals who have almost similar expectations from the organizations or marketers. Target marketing allows a small business to develop a product and a marketing mix that fit a relatively homogenous part of the total market. Small business enterprises are also encouraged to continually examine their marketing efforts to make sure that they keep pace with changing business realities. Beyond online and offline networking, another avenue for marketing in both venues is promoting your business through ads. A set of strategies found quite commonly in smaller businesses are growth strategies. One way to look at strategies to grow your business is through the way you will use products and markets. Pricing is an important function of marketing. Price is the exchange value of a product. It is the amount of money or other products needed to acquire a product.

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free), money off vouchers and discounts. Value price means that you get great value for money i.e. the price that you pay makes you feel that you are getting a lot of product. A good part of the business sector, with its airlines, banks, computer-service bureaus, hotels, insurance companies, law firms, management-consulting firms, medical practices, motion-picture companies, plumbing-repair companies, and real-estate firms, is in the service business. In the production and marketing of physical products, companies have increasingly paid special attention to ensuring consistency in quality, feature, packaging, and so on. Export marketing is more complicated to domestic marketing due to international restrictions, global competition, lengthy procedures and formalities and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex.

Notes

6.17 Glossary

- *Growth Stage:* Here, the business enterprise is gradually able to set up a position in the market. Production and sales level increases alongwith increasing competition.
- *Balance Sheet:* The Balance Sheet is a statement detailing what a company owns (assets) and claims against the company (liabilities and owners' equity) on a particular date.
- *Cash Flow:* Cash flow is the movement of money into or out of a business, project, or financial product.
- *Earnings Per Share (EPS):* EPS for a company is net income divided by the number of shares of common stock outstanding.
- *Expenses:* The economic costs that a business incurs through its operations to earn revenue.
- *Financial Plan:* A comprehensive evaluation of an investor's current and future financial state by using currently known variables to predict future cash flows, asset values and withdrawal plans.
- *Going Rate Pricing:* When the company charges largely by benchmarking prices with its competitor then it is called going rate pricing.
- *Pricing:* This refers to the process of setting a price for a product, including discounts. The price need not be monetary - it can simply be what is exchanged for the product or services, e.g. time, energy, psychology or attention.
- *Promotion:* This includes advertising, sales promotion, publicity, and personal selling, and refers to the various methods of promoting the product, brand, or company.
- *Target Market:* The consumers a company wants to sell its products and services to, and to whom it directs its marketing efforts.
- *Value Pricing:* When the company prices its products at lower prices with high quality, for customers who seek value for money, like in Big Bazar.

6.18 Review Questions

1. What do you mean by a strategy?
2. Why do you thing is strategy formulation important for small business?
3. What are the different stages of an organizational life cycle?
4. What are the various growth strategies adopted by small business?
5. What are the important elements of a strategy?
6. Explain the necessity of understanding financial statement.
7. "Finance is the lifeblood of any enterprise." Critically examine the statement.
8. What is the distinction between operating ratios and leverage ratios? Explain with suitable examples.

Notes

9. Briefly explain cash flow statement.
10. Write a brief note on income statement and its components.
11. Write a small note on P&L account and name few assets and liabilities.
12. What are the different sources of finance for entrepreneurs?
13. What is equity financing? How it can be mobilized?
14. Explain the debt financing.
15. What are the various internal and external sources for finance?
16. Define the target market.
17. Explain the ways to address the wants and needs of a target market.
18. Explain the growth strategies found common in small businesses.
19. "Pricing is an important function of marketing." Explain.
20. What factors will you keep in mind while pricing your product?
21. What are the ways in which you can decide your price? Explain with examples.
22. Explain briefly price skimming.
23. What do you mean by economic pricing?
24. Write a short note on psychological pricing.
25. Define service marketing. Explain the various characteristics of service marketing.

6.19 Further Readings

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