Entrepreneurial Development

Study Material

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Chapter 1

Understanding the Meaning of "Entrepreneur"

Meaning

The dictionary meaning of the word *Entrepreneur* is given as a person 'who starts a business.' It also adds that an *entrepreneur* is a person 'who starts an enterprise, business or a firm.' He works for himself and also provides employment to others. He is his own boss. Now, let us take a few examples, to test whether we have correctly understood the meaning.

1. A vegetable vendor who comes home to sell vegetables. Is he or she an entrepreneur?
2. An owner of a "petty shop" or provision store. Can we call him an entrepreneur?
3. Raghavendra Rao, who promoted Orchid Chemicals and pharmaceuticals.
4. A mechanic having his own work shop.
5. Chandrasekaran and Narayanan who run a publishing business which was started by their father. Who is an entrepreneur here?
6. Dhirubhai Ambani who had promoted a world class petroleum plant.
7. Padmanabhan, a chartered accountant, offering communication programmes and does audit work
8. Prabhudeva, Cinema director and actor.
9. Kamath, Chief Executive Officer of ICICI.
10. Ramu, a 10 year old boy selling *"sundal"* on beach.

The question here is, are all of them entrepreneurs? The answer is both *yes* and *no.* If we say that an entrepreneur is a person, then all the above individuals are entrepreneurs. When we add that a person having his own business only is an entrepreneur, excepting Kamath and Prabhudeva, all the others are persons having their own business – small, very small, or large. But we say that an entrepreneur is a person who starts his own business. Chandrasekaran and Narayanan are taking care of the business started by their father; so they are not entrepreneurs. Ramu, whose mother prepares *sundal* and asks him to go to beach, sell and bring the money and give it to her, is also not an entrepreneur, but only an employee. Also, if shops and businesses are not started by them, then they also cannot be called *entrepreneurs*.

Now, suppose Chandrasekaran and Narayanan expand the publishing business or a vendor sets up a small shop. Then, will they qualify for being called entrepreneurs? Yes, since they have added something new to their inherited business, they become entrepreneurs.

You can further generate your own examples with which you are familiar in your area, apply the definition and then come to your conclusion.

What do we learn from this? Whether a person or an individual can be called an entrepreneur depends on how we understand or define the word.

Now, let us further understand the term from the historical perspective with the help of

a) Various definitions

b) Theories; and

c) History of the thought.

Origin of the Term

The term entrepreneur is derived from the French verb *entreprendre* which means "to undertake". The original related words in English are *Entry* and *Enterprise*. These two words are combined and the new term is developed. The term *enterprise* has different meanings. One of them means a firm.

In Hindi, the equivalent word for entrepreneur is *Bania*. In Rajasthan, they are known as *Marwaris*. In Gujarati, they are popularly referred to as Vyapari / Sheth, In Tamil, they are called *Chettiars*, In Telugu, they are called *Komati*. *Subarna Baniks* in West Bengal, *Moplas* in Kerala, and *Sheroffs* in Maharashtra. All these are business communities in various regions of India. In fact in our scriptures, the society was divided into 4 categories, according to the role played in the society by each category. *Brahmins, Kshatriyas, Vaishyas* and *Shudras*. Out of these, the Vaishyas are capitalists. They are the entrepreneurs.

Definition :

In the early 16th century, the Frenchmen who organised and led military expeditions were referred to as "entrepreneurs". Around 1700 A.D., Cochran expanded the scope and applied the term to civil engineering activities, such as construction, architecture and public works.

Bernard Belidor applied the concept to the function of buying labour and material at uncertain prices and selling the resultant product at contracted price.

Quesnay regarded a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence, skill and wealth.

Application of the term to Business

The term "entrepreneur" was applied to business initially by the French economist, *Cantillon*, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products.

Another Frenchman, *J.B. Say*, expanded Cantillon's ideas and defined the entrepreneur as an **ORGANISER** of a business. An entrepreneur adds value.

Adam Smith described an entrepreneur as a person who only provides **CAPITAL,** without taking active part in the leading role in an enterprise.

Joseph A. Schumpeter recognised a person who introduced **INNOVATIONS,** as an entrepreneur. He is the one who introduces something new in the economy. According to him, *maintenance* is not an entrepreneurial activity. Thus, entrepreneur exists only when new factors are identified for the first time and not in the continuous activities.

Frank Young describes entrepreneur as a **CHANGE AGENT.**

Noah Webster thinks entrepreneur as one who assumes the responsibility of **RISK** and management of business.

Peter F. Drucker defines an entrepreneur as one who always searches for change, responds to it and exploit it as an **OPPORTUNITY**. Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

Arthur Dewing conceptualised the function of an entrepreneur as one who promotes **IDEAS** into business.

Robert D. Hisrich believed that an entrepreneur is the person who will establish a successful new business venture. Besides, he must also be a **VISIONARY- LEADER** – a person who has great dreams.

Martin Luther King too believed that an entrepreneur should have a **DREAM** and work against all obstacles to achieve it.

Hagen E.E feels that an entrepreneur is an economic man who tries to maximise his profits by innovations and **PROBLEM SOLVING.**

The *New Encyclopedia Britannica* says that an entrepreneur is an individual who bears the risk of operating a business in the face of ***UNCERTAINTY*** about future conditions.

We have studied various definitions so far, now let us study see in detail a few main theories contributing to the concept.

THEORIES

Richard Cantillion's Theory of 'risk-bearing'

Richard Cantillon[1], an Irish man who lived in France, defined the term entrepreneur as an agent who buys factors of production at certain prices in

1. Richard Cantillon – Peter Kilby (Ed.), '*Entrepreneurship and Economic Development*'. The Free Press New York 1971. p2

order to combine them into a product with a view to selling them at uncertai prices in future. He illustrated a farmer who pays out contractual incomes whic are certain to the landlords and labourers and sells his produce at prices that ar uncertain. He further states that so do merchants, who make certain payments i expectation of uncertain receipts. Thus, they are *risk-bearing* agents o production.

Knight's Theory of 'Uncertainty'

Knight[2] described entrepreneurs to be a specialised group of persons who bea *uncertainty*. Uncertainty is defined as a risk which cannot be insured against and is incalculable. He thus draws a distinction between ordinary risk and uncertainty. A risk can be reduced through the insurance principle, where the distribution of the outcomes in a group of instances is known. On the contrary, uncertainty is a risk that cannot be calculated. The entrepreneur, according to Knight, is an economic functionary who undertakes such responsibility of uncertainty which, by its very nature cannot be insured, nor capitalised nor salaried too.

Theory of J.B. Say on 'Co-ordination, Organisation and Supervision'

Jean-Baptiste Say[3], an aristocratic industrialist, with his unpleasant practical experiences, developed the concept of entrepreneur a little further which survived for almost two centuries. His definition associates an entrepreneur with the functions of *co-ordination, organisation* and *supervision*. According to him, an entrepreneur is one who combines the land of one, labour of another and the capital of yet another, and then produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his/her profit. Thus, J. B. Say has made a clear distinction between the role of the capitalist as a financier and the entrepreneur as an organiser. He further elaborates that in case of an undertaking, the operations are complex. This is because of multiple role of an entrepreneur as a Co-ordinator, Organiser and Supervisor. He has to surmount the obstacles, surpass the anxieties, repair the misfortunes, raise the resources and expedite to continue, maintain and expand the enterprise.

Schumpeter's Theory of 'Innovation'

Joseph A. Schumpeter for the first time in 1934, assigned a crucial role of *innovation* to the entrepreneur in his *magnum opus*, 'Theory of Economic Development'. Schumpeter considered economic development as a discrete dynamic change brought by an entrepreneur by instituting new combinations of production *i.e.* innovations. The introduction of new combination of factors of production, according to him, may occur in any one of the following five forms:

2. F.H. Knight, '*Risk, Uncertainty and and Profit*', Harper and Row, New York, 1965.
3. J. B. Say '*Production, Distribution and Consumption of Wealth*' John Grigg 9 North Fourth St., Philadelphia 1827, pp 285 – 286.

1. The introduction of a new product in the market.
2. Instituting a new product technology which is not yet tested in the branch of manufacture concerned.
3. Opening of a new market into which a specific product has not previously entered.
4. The discovery of a new source of supply of raw material.
5. Carrying out a new form of organisation of an industry by creating a monopoly position or the breaking up of it.

Schumpeter also made a distinction between the inventor and an innovator. An inventor is one who discovers new methods and new materials. And, an innovator utilizes such inventions and discoveries in order to make new combinations.

Schumpeter's views are particularly relevant to developing economies like India, where innovative functions are to be encouraged. Even reforms in agriculture call for innovation, such as the method of cultivation, varieties of seeds, plant protection devices, irrigation system, etc.

A major criticism of Schumpeter's view is that too much emphasis is given on the innovative function. An entrepreneur is required not only to innovate, but also combine all the resources, put them to optimum use and produce results.

McClelland's Theory of Achievement

McClelland[4] has developed an Achievement Motivation Theory. According to this theory, an individual's need for achievement *(nAch)* refers to the need for personal accomplishment. It is the drive to excel, to strive for success and to achieve in relation to a set of standards. People with high achievement motives would like to take calculated risks and want to win. They wish to take personal responsibility for solving problems and would want to know how well they are performing. **High achievers** are not motivated by money *per se* but instead employ money as a method of making sure of their achievements. Such people strive for personal achievement rather than for rewards of success. They always want to do something better and more efficiently than it has been done before.

The 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 accomplishment*. It is this need for achievement that motivates people to take risks. People with an hunger for achievement behave in an entrepreneurial way. Need for achievement stimulates the behaviour of a person to be an entrepreneur.

McClelland considers the *need for achievement* to be the most critical aspect to a nation's economic development. He held that a strong 'inner spirit' in

4. D.C. McClelland '*The Achieving Society*' The Free Press New York 1961

individuals would be developed in childhood and it would seek to satisfy throughout one's life. This 'inner spirit', which he termed as the *need for achievement*, if noticed in abundance would produce more energetic entrepreneurs, capable of generating rapid economic development. A higher need for achievement or ambition motivates an entrepreneur to take risks, work hard, find new things, save more, reinvest the savings in industry and so on. The limited empirical evidence supports the hypothesis that need for achievement contributes to entrepreneurial success.

McClelland found that the *urge to achieve* was lower among people of underdeveloped countries than among those of developing nations. Even in U.S.A. only about 10% of the people were actually high achievers. It is the low level of *aspirations* or *ambitions* that explains the lack of *enterprise* in underdeveloped countries. Ambition is the lever of all motives and we can say that '*aimless life is a goal-less game*'. Ambition motivates people, activates them, broadens their vision and makes their lives more meaningful. Ambition is an index of one's resourcefulness. It builds up the *achievement pressure* in an individual and provides the basis for McClelland's *n* factor. The initiatives and intentions of an individual are directed by his ambitions. Therefore, what matters is not merely the people but their aspirations and the means employed to achieve their goals.

Some societies produce a higher percentage of people with higher need achievement. Thus, entrepreneurship becomes a link between *need achievement* and *economic growth*.

Peter Drucker's Theory of 'Opportunity'

Peter Drucker[5] defines an entrepreneur as one who always searches for change, responds to it and exploits it as an *opportunity*. Entrepreneurs innovate. Innovation is a specific instrument of entrepreneurship. According to Drucker, entrepreneurs must learn to practice systematic innovation. What is systematic innovation? Systematic innovation, according to him, consists of purposeful and organised search for changes. Also, in an analysis of the opportunities, such changes might offer scope for economic or social innovation.

Peter Druker's Principles of Innovation

According to Drucker, the principles of innovations require a few 'Dos' and a few 'Don'ts'. They are :

The 'Dos'

1. Purposeful systematic innovation begins with an analysis of opportunities. First, it begins with thinking through what he calls the sources of innovative principles.
2. Innovation is both conceptual and perceptual. The second important factor of innovation is to step out to look, ask, and listen.

5 Peter Drucker *'Innovation and Entrepreneurship'* – Practice and Principles.

3. An innovation to be effective, has to be simple and should remain focused.
4. An effective innovation starts in a small way. It will not be grand and imposing.
5. A successful innovation aims at leadership.

The 'Don't s'

1. A firm should not try to be too clever. All innovations are to be handled by ordinary persons. In other words, anything too clever, be in design or execution, is almost bound to fail.
2. Do not diversify. Innovations that stray from a core area are likely to become diffused. They remain only as *ideas* ana do not become innovations at all.
3. Do not try to innovate for the future. Innovate for the *present.*

Conditions for Innovation

According to Peter Drucker, there are 3 conditions that have to be fulfilled. While all the three conditions are fairly straightforward, they are often overlooked.

1. Innovation requires knowledge and ingenuity. It is a demanding process by which a purposeful focus is given by persistence commitment and hard work.
2. Innovation must be built on one's own strength.
3. Innovation always has to be close to the market, focused on the market, indeed it should be market-driven.

HISTORICAL DEVELOPMENT OF THE TERM 'ENTREPRENEUR'

Vasant Desai explains the term entrepreneur on the basis of the historical development in the theory.

17th century	* Person bearing risks of profit/loss in a fixed price contract with government.
1725: Richard Cantillon	* Person bearing risks is different from person supplying capital
1797: Beaudeau	* Person bearing risks, planning, supervising, organising and owning.
1803: Jean Baptiste Say	* Separated profits of entrepreneur from profits of capital.

1876: Francis Walker	* Distinguished between those who received profit from managerial capabilities.
1934: Joseph Schumpeter	* Entrepreneur is an innovator and develops untried technology.
1958: Haggen	* An entrepreneur is an economic man who tries to maximise his profits by innovations.
1961: David McClelland	* Entrepreneurs are high achievers.
1964: Peter Drucker	* Entrepreneur maximises opportunities through systematic innovations.
1975: Albert Shapero	* Entrepreneur takes initiative, organises some social, economic mechanisms and accepts risk of failure.
1980 : Karl Vesper	* Entrepreneur seen differently by economists, psychologists, business persons and politicians.
1983: Gilford Pinchot	* Intrapreneur is an entrepreneur within an already established organisation.
1985: Robert Hisrich	* Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the results – rewards of monetary and personal satisfaction.
1990: Vasant Desai	* Entrepreneurial activities encom pass all fields/sectors and foster a spirit of enterprise for the welfare of mankind.

Thus, the term "Entrepreneur" is defined in a variety of ways. The concept of entrepreneur varies from country to country as well as from period to period. It also varies according to the level of economic development and the perceptions of various people. Sociologists, Psychologists, Economists, and Management *gurus* have looked at it from their point of views.

Chapter 2

Characteristics of an Entrepreneur

On the basis of understanding of the concept of entrepreneur, let us discuss the need, role, scope, advantages and the limitations of entrepreneurial development.

Need, Role and Importance of Entrepreneurship

Entrepreneurship is the spirit of a person. It is a quality which may be inherent or developed. For the economic development of a country, entrepreneurial skills need to be developed. These skills lead to the development of business and ultimately, the result is seen in the economic growth of the country.

Entrepreneurship plays a very important role in terms of

(a) generation of employment opportunities

(b) its size and nature, it is more dynamic, flexible and capable of making quick decisions.

(c) ensuring balanced economic development. Small enterprises need relatively low investment and can be easily undertaken in rural and semi-urban areas. Starting such enterprises create additional employment in rural areas and prevents migration of people from rural to urban areas. Small enterprises use local resources and are best suited for rural and underdeveloped sectors. Entrepreneurial development accelerates the growth of small firms in India. A number of small firms are expected to be more innovative and make the Indian industry compete in the international market effectively.

The advantages of entrepreneurial development are that it leads to freedom, flexibility, growth and development. It also develops leadership quality.

Scope of Entrepreneurial Development

The scope of any subject is determined by its nature. We have seen that entrepreneurial development is basic, wide, comprehensive, flexible, small in size and simple. It does not require any formal education. Thus, the application and scope of the subject matter are also wide. The managerial and creative skills developed for enterpreneurship are useful not only in business but also applied to social causes and in government organisations. It also promotes intrapreneurship in large business houses, which will be studied later. The concept can be applied to any area of development like economic development, rural development, export development, social development, etc. .

Limitations

Entrepreneurship is one which cannot be forced upon any individual and thus it is limited to the people who develop it from within. Sometimes, due to various circumstances, it is forced on an individual and he/she becomes an entrepreneur by compulsion. Even though it does not require any formal education, entrepreneurship calls for maturity. Enterprises started at a very young age without business perspective may fail. For example, in India, in information technology industry, we have seen that the investments were low and there were no *entry barriers* because of which many started their enterprises and failed as most of them were young, without much experience and knowledge of business model.

Hence, it has become very clear that to start an enterprise and to make it vibrant and successful, it is quite essential that an entrepreneur possesses the required ingredients. We shall now study about them.

CHARACTERISTICS OF AN ENTREPRENEUR – AN INTRODUCTION

The word *'characteristi'* means a distinguishing quality, attribute and trait. Characteristics is *plural,* meaning *qualities, features, attributes* and *traits*. So, on the basis of the qualities identified, we should be able to identify an entrepreneur and distinguish him from a manager or an executive or a self employed person.

On the basis of the study of the various definitions and theories dealt earlier, it is easy to identify the characteristics of an entrepreneur. As the definition expanded, their role, functions and characteristics also changed.

First, let us generate the list of characteristics of an entrepreneur and from that list identify the most distinguishable primary elements.

The characteristics of an entrepreneur are developed on the basis of :

(i) The history of thought on the term 'entrepreneur'.

(ii) Studying the characteristics of the successful Indian entrepreneurs.

(iii) Differentiating the term entrepreneur from related terms such as manager.

(iv) Myths on entrepreneur.

Characteristics of the term 'entrepreneur'

On the basis of history of the theories, the characteristics generated are given below, about which we have studied in the previous chapter.

1.	*Organiser*	–	Say
2.	*Capitalist*	–	Adam Smith
3.	*Innovative*	–	Schumpeter and Drucker
4.	*Change Agent*	–	Young
5.	*Risk taker*	–	Webster, Walker and Knight

6.	*Opportunist*	–	Drucker, and Dewing
7.	*Decision maker*	–	Danhof
8.	*Visionary*	–	Hisrich
9.	*Leader*	–	Hisrich
10.	*Dreamer*	–	Luther
11.	*Problem solver*	–	Hagen
12.	*High Achiever*	–	McClelland

Characteristic Features of Successful Indian Entrepreneurs

If we go through the business history of India, we come across the names of persons who have emerged as big successful entrepreneurs. For example, Tata, Birla, Modi, Dalmia, Kirloskar, Dhirubhai Ambani, Narayana Murthy, Azim Premji, Godrej, Raju, Ramaswamy, Sundaram Iyengar, Pillai, Narayanan, Ananthramakrishan, etc. When we study about them, we find besides the 12 *characteristics of the entrepreneur* enumerated above, several other characteristics of an entrepreneur were noticed in them. Let us list them down:

List of Characteristic Features of Successful Indian Entrepreneurs

Hard work – Long Hours	Optimistic	Independent	Foresight
Time/speed	Strategist	Creativity	Conviction
Self reliance	Sound knowledge	Initiative	Dynamism
Communicator	Technical knowledge	Human relations	Courage
Motivator	Self confidence	Involvement	High Energy level
Initiative	Passion	Pride	Dreamer
Discipline	Flexibility	Adaptability	Determination
Will power	Assertiveness	Values	Commitment

One can add many more and the list can be very long. Some of these characteristics are common between a manager and an entrepreneur. So now, let us understand them.

Differences between the related terms

Under this heading, we shall understand the difference between various related terms. They are —

1. Difference between an entrepreneur and a manager.
2. Difference between an entrepreneur and an Intrapreneur.
3. Relationship between the terms entrepreneur, entrepreneurial and entrepreneurship.
4. Difference between a scientist, inventor and an entrepreneur.

Classification of Entrepreneurs

In the earlier chapters, we studied about the concept of entrepreneur, his characteristics, elements and functions. The term is very broad in its definition and as a result, there are too many types of entrepreneurs. Whenever the number is large, the need for sub-grouping and segmenting arises for improving our understanding. This means that entrepreneurs can be classified into different types.

The need for classification can be understood by the following example – In a class, let us say, there are 60 students. If a teacher wants to achieve cent percent results, he or she may have to classify them into different categories, such as Group A '*very bright*', Group B '*average*' and Group C '*below average*'. The teacher can then develop different teaching plans for each of the categories and give different levels of problems.

Similarly, the reasons for classification of entrepreneurs are given below:

a) To segment then into small and manageable sizes.
b) To differentiate one type of entrepreneur from the other in terms of roles, functions and characteristics.
c) To develop relevant strategies for each group.
d) To enable the Government to frame suitable policies. For example, to promote a self employment scheme, giving subsidies or incentives, etc.

The first attempt to classify entrepreneurs was made by Clarence Danhof on the basis of his study of the American agriculture. He classified the agricultural entrepreneurs on the following basis. At the initial stage of economic development, entrepreneurs have less initiative and drive, but as their economic development takes shape, they became more innovative and enthusiastic. Thus, he classified entrepreneurs into four types. They are 1. Innovative Entrepreneurs, 2. Imitative or Adaptive Entrepreneurs, 3. Fabian Entrepreneurs; and 4. Drone Entrepreneurs.

1. ***Innovative Entrepreneurs*** : An innovative entrepreneur is one who introduces new goods, introduces new methods of production, discovers new markets and reorganises the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved and people look forward to change and improvement. Schumpeter's entrepreneur was of this kind. These types of entrepreneur

largely emerge in developed countries like U.S.A, U.K, Japan, etc. Such entrepreneurs are also called *innovators*. With their competence and inventiveness, they invent new products. Their interests lie in research and innovative activities.

2. ***Imitative or Adaptive Entrepreneurs*** : They are characterised by their willingness to adopt successful innovations introduced by innovative entrepreneurs. Imitative entrepreneurs do not innovate changes themselves. They only imitate techniques and technology innovated by others. Such types of entrepreneur are particularly suitable for the under-developed/ developing countries, for introducing whatever that is already available in developed and advanced countries.

   The reason for the backwardness of the underdeveloped countries lies in the fact that they are deficient in innovating and imitating type of entrepreneurs who are found in abundance in developed countries. Men are needed who can imitate technologies and products to suit the conditions prevailing in such countries. There will be a need for changing and adjusting the new technologies to suit their specific conditions. Such countries, primarily need imitators, who are capable of transforming the system with limited resources. As India is a developing country, we need more *imitative entrepreneurs* for introducing the available technology in advanced countries.

3. ***Fabian Entrepreneurs*** : Fabian entrepreneurs are characterised by great caution and scepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to effect any change would only result in a loss of relative position of the enterprise. Such entrepreneurs have neither the will to introduce changes nor the desire to adopt new methods innovated by the most enterprising entrepreneurs. Such entrepreneurs are shy and lazy. Their dealings are determined by custom, religion, and tradition and past practices. They are not interested in taking risks and they try to follow the footsteps of their predecessors.

4. ***Drone Entrepreneurs*** : They are characterised by their refusal to utilise opportunities to make changes in production. Such entrepreneurs may even suffer loss, but they do not make changes in production methods. They are *laggards* because they continue their business in the traditional way and their products lose the marketability. Ultimately, their operations become uneconomical and they are pushed out of the market.

Vasant Desai has classified entrepreneur into 9 different types or groups as follows:

3.3 Types of Entrepreneurs

I. Type of Business:	II. Use of Technology:	III. Others or unclassified:
1. Business 2. Trading 3. Industrial (i) Large (ii) Medium (iii) Small and (iv) Tiny 4. Corporate 5. Agricultural (i) Plantation (ii) Horticulture (iii) Dairy (iv) Forestry 6. Retail 7. Service 8. Social	1. Technical 2. Non-technical 3. Professional 4. High-tech 5. Low-tech	1. Traditional 2. Skilled 3. Non-skilled 4. Inherited 5. Forced 6. Bureaucratic 7. Intrapreneur 8. National 9. International 10. Immigrant 11. Modern 12. Professional 13. Non-professional 14. Imitating
IV. Motivation:	**V. Growth:**	**VI. Stages of development:**
1. Pure 2. Induced 3. Motivated 4. Spontaneous	1. Growth 2. Super-growth	1. First-generation 2. Modern 3. Classic
VII. Area:	**VIII. Gender and Age:**	**IX. Scale of operations:**
1. Urban 2. Rural	1. Men 2. Women (i) Young (ii) Old (iii) Middle-aged	1. Small 2. Large

The above classification of entrepreneurs is not exhaustive, for it aims chiefly at highlighting the broad range of entrepreneurs found in business and profession. Earlier, we discussed a few other types, now we shall discuss, in brief, a few other types of entrepreneurs.

CLASSIFICATION ACCORDING TO TYPE OF BUSINESS

1. ***Business Entrepreneur***: Business entrepreneurs are individuals and they are also called *solo operators,* who essentially work alone. They conceive an idea for a new product or service and then create a business to convert their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile, processing house, advertising agency, ready-made garments, or confectionery. In majority of cases, these entrepreneurs are found in a small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small. In the beginning, most of the entrepreneurs start their enterprises alone. Some entrepreneurs do not have courage to start the business alone, so they start with two or more partners who are called active partners on a joint venture. We also find *sleeping partners* or only partners, who only invest capital, but do not actively participate in the functioning of the business enterprise.

2. ***Trading Entrepreneur***: Trading entrepreneur is one who undertakes trading activities and is not concerned with any manufacturing activity. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his products. He is engaged in both domestic and overseas trade. For example, Britain, due to geographical limitations, had developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing ideas ahead to promote their business. There are some wholesalers who undertake the function of physical delivery of goods and distribute them to the retailers or semi-wholesalers. They take risks and ownership and the title of the goods may be passed on to them. Their main strength is distribution and marketing. These entrepreneurs get their profits through mark-ups and commission from the manufacturer. Brokers, agents come under this category of trading entrepreneurs, even though they do not physically stock goods. Like London in Britain, Mumbai, in India is also mainly a trading city.

3. ***Industrial Entrepreneur***: Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors a product or service to meet the marketing needs. He is a product-oriented person who starts an industrial unit for making some new product. The entrepreneur has the ability to convert economic resources and technology

into a profitable venture. He is found in industrial units such as electronics, textiles, machine tools, automobile spare parts or video cassette factory, etc. He may undertake marketing aspect as well. Ancillary units also come under this category.

4. ***Corporate Entrepreneur*** : Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing corporate undertakings. A corporate undertaking is a form of business organisation which is registered under a suitable Statute or Act which gives it a separate legal entity. A trust registered under the Trust Act, and a company registered under the Companies Act are examples of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.

5. ***Agricultural Entrepreneur***: Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilisers and other inputs of agriculture. They are motivated to raise agricultural production through mechanisation, irrigation and application of technologies for dry land agriculture products. They cover the broad spectrum of agricultural sector including allied occupations. Further, classification in this sector is also based on the type of agriculture like dairy, plantations, etc.

6. ***Retail Entrepreneurs***: Like trading entrepreneur, they do not undertake manufacturing activities. Trading entrepreneurs deal in wholesale market while retail entrepreneurs serve the individual as well as organisational customers. They get their commission. In fact, they get maximum commission. They too take risks and stock the products. In India, we have a huge network of small and big retail traders spread all over the country. They provide a wide choice to the customers. For example, medical shops, provision shops, vegetable and fruit shops, etc.

7. ***Service Entrepreneur***: These entrepreneurs provide services to the customers. For example, hotels, airlines, dry cleaning, mechanic shops, etc.

8. ***Social Entrepreneur***: These entrepreneurs take up a social issue or a cause for promotion. The objective is not to make profit like business entrepreneurs but to serve the society. Like intrapreneurs, this category of entrepreneurs is slowly emerging. For example, Mr. Nirmal, founder entrepreneur of Exnora. Mr S. Vidyakar founder of *Udavum Karangal* (It is an organisation providing home to 500 orphan, abandoned and destitute children). Baba Apte from Pune and many others belong to this category.

CLASSIFICATION ACCORDING TO TECHNOLOGY

1. ***Technical Entrepreneurs***: They are also called *technocrats*. A technical entrepreneur can be compared to a 'craftsman'. He develops high quality goods because of his craftsmanship. He concentrates more on production than marketing. He demonstrates his innovative capabilities in matters relating to production. The greatest strength that a technical entrepreneur possess is his skill in production techniques.

2. ***Non-technical Entrepreneurs***: Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

3. ***Professional Entrepreneurs***: Professional entrepreneur is a person who is interested in establishing a business but does not have an interest in managing or operating it after its establishment. A professional entrepreneur sells out the running business and starts another venture with the sale proceeds. Such an entrepreneur is dynamic, who keeps on conceiving new ideas to develop alternative projects.

CLASSIFICATION ACCORDING TO MOTIVATION

1. ***Pure Entrepreneurs***: A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

2. ***Induced Entrepreneurs***: An induced entrepreneur is one who is induced to take up an entrepreneurial task due to the policy matters of the government. It may be in the form of assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the induced entrepreneurs enter business due to financial, technical and several other facilities provided to them by the State agencies to promote entrepreneurship. Import restrictions and reservations of some items for small units have induced many people to start a small-scale industry. A person with a sound project is provided package assistance to his project.

3. ***Motivated Entrepreneurs***: New entrepreneurs are motivated by the desire for self-fulfillment. They are there because of the possibility of producing and marketing some new products for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit. In contrast to this, there are those entrepreneurs who can be called *buyers*, who do not prefer to take much risks. Hence, in order to reduce the risks involved in setting up a new enterprise, they wish to buy the on-going one.

4. ***Spontaneous Entrepreneur***: These entrepreneurs start their business because of their natural talent. They are very bold persons with initiative, and have enormous confidence in their abilities which motivate them to undertake entrepreneurial activity. Such entrepreneurs have strong conviction. They are also called *challengers,* as they plunge into industry because of the challenges it presents. When one challenge is met, they begin to look for new ones.

CLASSIFICATION ACCORDING TO GROWTH

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

CLASSIFICATION ACCORDING TO THE STAGES OF DEVELOPMENT

1. ***First-generation Entrepreneurs***: A first-generation entrepreneur is one who starts an enterprise by his/her innovating skill. He/she is essentially an innovator, combining different technologies to produce a marketable product or service.
2. ***Modern Entrepreneurs***: A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake ventures which suit the current marketing needs.
3. ***Classical Entrepreneurs***: A classical entrepreneur is one who is concerned with the customers and their marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximise his economic returns at a level consistent with the survival of the firm with or without an element of growth. They are also called *lifetimers.* These entrepreneurs take business as an integral part of their life. Usually, the family enterprise and businesses which mainly depend on exercise of personal skill fall in this category of entrepreneurs.

Some of the classifications like intrapreneur have been discussed in the previous chapter, while some in the beginning of this chapter and others are simple and self explanatory.

A few other categories are *small, women, rural* and *export* entrepreneurs which will be discussed in detail later on in the book. Each category has its unique problems and characteristics. All of them play a dominant role in our country and contribute substantially to the economic growth and thus need a special attention.

Classification according to the Chosen path : Entrepreneurs can also be classified on the basis of different paths adopted by the *founder-entrepreneurs* to start an enterprise. They are:-

1. The copycat.
2. The Public Relation Officer (P.R.O).
3. The Idealist
4. The Rationalist
5. The Zealot.
6. The Soloist
7. The accidental entrepreneur and
8. The Spin-off.

The Copycats are the imitator type of entrepreneurs discussed earlier. *The PRO* type of entrepreneur is a person with power. He has immense power to start an enterprise. *The Idealist* entrepreneur is a person with his own beliefs and ideals and he starts his business to put such ideals into practice. For example, a Professor who has been teaching concepts enters into business to practice them. *The rationalist* will ask a hundred questions, analyse the environment before starting business. He will study the market, competition, finance and potential. *The Zealots* are the dedicated entrepreneurs who have zeal and dedicate their business to a social cause. For example, creating an awareness for preventing AIDS. A *Soloist* starts and manages his/her own business alone without any partners or employees. For example, consultants, and free lancers. The entrepreneurs who start their business by accident fall in this category. They hit upon the idea by sheer accident and start their business. In the last category of *spin-offs,* the new business ideas are discovered within the old business. *Spin-offs* founders often already have contacts with potential suppliers and customers, along with an understanding of their industry and its market.

According to *Global Entrepreneurship Monitor Survey* conducted in India in the year 2001, it has been estimated that 10% of the population is engaged in autonomous entrepreneurial activity. 4% in business sponsored entrepreneurial activity and 12.5 % were owner managers of small business.

Conclusion

To conclude, different types of entrepreneurs do have different characteristics and uniqueness, but, it does not mean that these classifications/types are exclusive. An entrepreneur may belong to one or more categories. Also, he may move from one type to another. For example, an entrepreneur may start a small business operation, say as a trader or distributor and then become an industrial

Problems of Entrepreneurs

The objective of this chapter is to identify and understand the concept, functions, growth, development, problems and trends of entrepreneurs with specific reference to *women, rural, small entrepreneurs* and *small exporters*.

WOMEN ENTREPRENEURS

The characteristics of men and women entrepreneur are generally very similar. The differences are found only in the age, personality, motivation and type of business started. Men start an enterprise between the age group of 25-35 years, whereas women do so in 35 - 45 age group. Women are goal oriented, independent, flexible, tolerant, creative, realistic, enthusiastic and energetic because of which the management style differs from their male counterpart. Women are by and large born managers as they manage their *house*. They can simultaneously do more than one task at a time and have good coordination skills. They invariably think of entering a business once their children are grown up and household responsibilities get reduced. Women rely on their own finance and avoid availing of loans. They also differ from men in the types of business they start.

Definition

Women entrepreneurs may be defined as a" woman or a group of women who initiate, organise and run a business enterprise". Government of India has defined women entrepreneurs based on women participation in equity and employment of a business enterprise. Accordingly, a woman-run enterprise is defined as "an enterprise owned and controlled by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women". Women entrepreneurs constitute 10% of the number of entrepreneurs in our country.

There has been a significant growth in self-employment of women with women now starting new ventures at three times the rate of men. They constitute 50% of the population of our country with a lower literacy rate than men. This statistical fact, indicates that for the economic growth of the nation, women should not be ignored and they should be encouraged to make their share of economic contribution to the country. One way of achieving is by making women come out and become entrepreneurs. In the traditional society, they were confined to the four walls, playing household roles, but in the modern society, they are coming out to participate in all sorts of activities. Normally, women entrepreneurship is found in the extension of their kitchen activities, mainly in preparing commercially the 3 P's viz., *Pickles, Papads* and *Powder*. A few of them venture into services industry relating to hospitality, catering, educational services, consultation or public relations, beauty clinics, etc..

Women enter entrepreneurship due to economic factors which push them to be on their own and urge them to do something independently. Women prefer to work from their own residence, difficulty in getting suitable jobs and the desire for social recognition motivate them towards self-employment. We see a lot of women professionals in engineering, medicine, law, and also as Chartered Accountants, etc. They are also setting up hospitals, training centres, etc.

Problems of Women entrepreneurs

1. ***Problem of Finance***: To raise finance, they do not have properties in their names to use them as collateral securities. Thus, their access to external sources of funds is restricted. They have to rely on their own savings and negligible loans from friends and relatives. They have to satisfy themselves with small size of business operations. Because of limited funds, they are not able to (a) stock raw materials; and (b) spend on advertising.

2. ***Limited Mobility***: Due to primary household responsibilities towards her family, her time gets divided between the *two worlds*. She has restricted timings for work due to which, she is not in a position to travel frequently and be away for longer periods. Thus, her mobility is restricted. This also has an implication on business.

3. ***Lack of Education***: Women have lower rate of literacy. Nearly 60% of the women are illiterate in India, because of which they are not aware of the latest developments that have taken place in technology. Low level of education results in low achievement motivation amongst women entrepreneurs.

4. ***Male dominated society***: A woman is dominated by men in her family as well as business. Often she has to obtain permission from men for almost everything. They are not treated as *equals*. Her freedom is restricted. She always has to consult and get the approval of men.

5. ***Low risk-bearing ability***: This is so because right from the childhood, her parents take decisions for her and after marriage her husband takes over. She is protected throughout and thus the risk bearing ability gets reduced.

6. ***Social recognition***: Society does not give due recognition to women entrepreneurs. They are looked down as small and weak.

On account of the above mentioned reasons, the enterprises of women faces several problem in finance, marketing and expansion, etc.

Steps to encourage Women entrepreneurs

To encourage women entrepreneurs, the Government of India and non-government organisations (NGOs) promote various schemes. Some of the schemes are promoted exclusively for women. There is a women's wing of National Alliance of Young Entrepreneurs (NAYE) which assists women entrepreneurs in:

(i) Providing access to capital, infrastructure and markets
(ii) Development of management and production capabilities
(iii) Identifying investment opportunities
(iv) Sponsoring, delegating, participation in trade fairs, exhibitions, arranging buyer-seller meets and specialised conference, etc.
(v) Organising seminars, workshops and training programmes for giving wider exposure to women entrepreneurs to develop their entrepreneurial capabilities.
(vi) Lobbying for them in Press, Parliament, State legislatures and other fora
(vii) Advocating effectively for securing their rightful place in the Indian economy.

Women entrepreneurs, with proposals to start units in biotechnology, computer-related field, electronics and engineering are given priority at industrial estates to be set up by SIDCO at Tirumullaivoyal, Tiruchi, Madurai, Coimbatore and Salem. SIDCO has decided not to permit any chemical-based industries in the estates, particularly in Tirumullaivoyal, because of pollution- related problems. The corporation is also finding out from the prospective entrepreneurs whether they prefer built sheds or just developed plots in these industrial estates.

SIDCO shall sign an agreement with NSIC under which loans up to Rs. 25 lakhs will be given to the entrepreneurs without insisting on collateral security. The project proposals are assessed both by SIDCO and NSIC, and loan recoveries are also done jointly by these two organisations.

SIDCO will also develop *industrial clusters* in these estates, *i.e.*, similar type of industries will be located in these areas so that common facilities can be provided and made better use of.

Commercial Banks also have '*Women entrepreneur Cells*' to extend financial assistance to women. The IDBI has set up the *Mahila Udyam Nidhi* (MUN) and *Mahila Vikas Nidhi* (MVN) schemes to help women entrepreneurs. MUN provides 15% equity assistance for a new project, its cost not exceeding Rs. 10 lakhs. Eligible entrepreneurs are required to bring in a token contribution of 10%, and are allowed to retain central or state investment subsidies, if any, to meet the working capital requirements. MUN scheme extends aid to voluntary agencies in decentralised industries for training-cum-production centres and also for management and skill upgradation. There is one more scheme under which indirect loans are given by SIDBI through SFCs and SIDO, about which we have already studied in the previous chapter.

Indira Mahila Yojana (IMY) was launched in August 1995 to give education, awareness, income generation capacity and empowerment to women. This has to be implemented through the self-help groups at the grassroot level.

Rashtriya Mahila Kosh (RMK) was established in 1992 with a fund of Rs. 31 crores to meet the needs of poor women by giving them loans. It also organises training, apprenticeship and orientation programmes for trainees under the Indian Mahila Block Societies (IMBS). With a credit support of Rs. 2,500 to Rs. 5,000, women have been able to double or triple their daily income. The activities undertaken are dairying, petty shop keeping and investment on the agricultural operations. RMK has disbursed Rs. 16 crores and the recovery rate is 92 % in the last three years.

Steps were initiated in 1987 with the objective of providing training to rural women for increasing their production capacity in business and income generation. In this programme, training in the areas of traditional business like agriculture, milk, fisheries, handloom, Khadi development, etc., is imparted.

NORAD (Norwegian Agency for International Development) was established in 1983 to help the educated and uneducated women financially in non-traditional areas of business such as electronics, computer programming, manufacturing of watches, printing, readymade garments, etc.

'ARVIND' was started by the National Bank for Agriculture and Rural Development (NABARD). It provides loan up to Rs. 10 lakhs to women who work collectively in agriculture for their economic development.

'DWCRA' (Development of Women and Children in Rural Areas) was launched in 1982 by the Rural Development Department Scheme to support women's income generation activities through a group of 15 to 20 women in each group. The main objective of this programme is to strengthen the economy of rural women by giving them loan and economic assistance to develop their skill, efficiency and ability to meet their liabilities.

TRYSEM is a sub-plan of Integrated Rural Development Programme. It gives training to the young unemployed women (and also for men) for self-employment. The trainees get a stipend of Rs. 150 per month during the training period. In this programme, 40% of total seats are reserved for women.

The Government of Tamilnadu established *Tamilnadu Corporation for Development of Women Limited* (TNCDW) for development and empowerment of women. It is a nodal agency for implementation of various projects. The '*Mahalir Thittam*' scheme of the State government is being implemented by TNCDW.

There are special entrepreneurship development (E.D.) programmes for women with a view to encourage them to enter industry. Product and process-oriented courses enabling women to start small scale industries are also recommended. Examples are *Entrepreneurial Development Programmes* on baking, food processing, plastic and leather Industries. Technical capability is given and women are exposed to opportunities in specific industries.

Several central and state level nationalised banks, SFCs, SIDO, DIC, and voluntary agencies like *FICCI's Ladies Organisation* (FLO), NAYE are engaged in protecting and developing women entrepreneurs in the rural and urban areas of the country. In addition, the Association of Women Entrepreneurs of Karnataka (AWAKE), Women Entrepreneurs Association of Maharashtra (WEMA) and Self – Employed Women's Association, Ahmedabad (SEWA), Indian Council of Women Entrepreneur (ICWE) are also striving to promote entrepreneurship among women. SEWA has its own bank which gives loans to the poor women like vegetable vendors, flower vendors, etc. SEWA is a successful organisation, functioning effectively for many years. In Tamilnadu and Andhra Pradesh, the respective Governments have promoted industrial estates especially for women entrepreneurs and other State Governments are also planning to introduce similar steps.

Business Opportunities for Women entrepreneurs

Women in rural areas, where agriculture is the prominent activity, can take up agro based industry like food preservation, bakery, dairy and poultry. In industrial areas, ancillary units can be managed by women. In the areas dominated by textiles, weaving and handloom activities can be taken up. In urban areas, teaching, nursing, electronic and computer services can be started. Women entrepreneurs can start some of the industries like *Agarbathi* manufacturing, *papad* making, bedspread making, embroidery, handicraft exports, batik paintings, apparel manufacturing, catering services, restaurants, snackbars, sweetmeat stalls, soft drink stalls, retail shops-textiles, readymade garment, tailoring, grocery, drug store, run creches, tutorial classes, typewriting-shorthand classes, computer institutes, florist shops, dry cleaning, pickle, dairy, contract for maintenance of office, milk distribution, service centres like plumbing, electrical repairs, stationery manufacturing unit, block printing on paper, textiles, packing materials, pathological clinics, travel agencies, photo-copier firms, telephone booths, photographic studios, working women's hostel, design and events management, etc.

Future of Women Entrepreneurs

In future, with the help of high technology, women will be able to work from home and thus balance better between the work place and home. The opportunities for women will increase manifold with the changes in technological, cultural and social environment. Women need assistance and support in the marketing their products. An organisation could be set up for marketing of the women entrepreneur products exclusively. A private distribution agency with wide distribution network can take up the marketing of products produced by women entrepreneurs.

RURAL ENTREPRENEURSHIP

About 80% of India's population lives in rural areas. If India has to develop well, villages have to develop well. Gandhiji had realised and recognised this fact and encouraged Khadi and Village industries.

Definition of Rural Entrepreneurship

Rural entrepreneurship means entrepreneurship emerging in rural areas. In other words, establishing industrial units in rural areas is rural entrepreneurship. It implies rural industrialisation. According to KVIC, village industry or rural industry is "any industry located in a rural area, the population of which does not exceed 10,000, which produces any goods or renders any services with or without the use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees." The definition has been modified with population ceiling of 20,000 and investment upper limit of Rs. 3 crores in plant and machinery. As a result of widening of the scope of village industries, classified village industries have increased from 70 to 101.

Village industries have been grouped into seven categories which are as follows:

(i) Mineral based (ii) Forest based (iii) Agro based (iv) Polymer and chemical based (v) Engineering and non-conventional (vi) Textiles including Khadi ; and (vii) Service industry.

The need to develop rural industries in India should be accorded the top priority because they will help in

(i) The reduction in migration of rural population to urban areas.

(ii) Balanced regional growth

(iii) Reducing rural-urban gap

(iv) Increasing rural income

(v) Reducing the heritage of the country

(vi) Reduction the urban pollution

(vii) Higher economic growth

Since a majority of the population lives in villages, it becomes necessary to develop rural villages to register a quantum leap in economic growth. There is a lot of potential in rural areas which needs to be tapped. It can be achieved by promoting rural entrepreneurship.

Problems of Rural Entrepreneurship

Developing rural entrepreneurship is not an easy task. There are lot difficulties in the development of rural industries. They are:

(i) Domination by agricultural mindset

(ii) Lack of education with low literacy

(iii) Poor infrastructure because of which access is difficult and costly. Some villages do not have roads, drinking water, electricity, drainage, and telephones.

(iv) Lack of information

(v) Lack of technical knowhow and skilled labour

(vi) Lack of quality control

(vii) Attitude of people with mistrust of new comers

(viii) Language barriers

(ix) Primitive and low technology

(x) High input cost due to transportation

(xi) Management problems

(xii) Lack of storage and warehouse facilities

(xiii) Inadequate finance and credit

(xiv) Lack of awareness and knowledge about the opportunities

(xv) Preference for salaried jobs than self-employment

Because of these innumerable problems, entrepreneurs shy away from rural areas. This does not mean that these problems insurmountable. Since the potential is quite high in rural areas, it is not possible to ignore it. Let us see how these problems could be solved to promote rural entrepreneurship.

Overcoming the problems of Rural Entrepreneurship

There are two directions in which we need to work. The way we look at rural entrepreneurship has to change. Rural entrepreneurship has two facets:

(i) Manufacturing of rural products in rural areas and marketing in rural and urban areas; and

(ii) Manufacturing of urban products in rural areas and marketing in rural and urban areas.

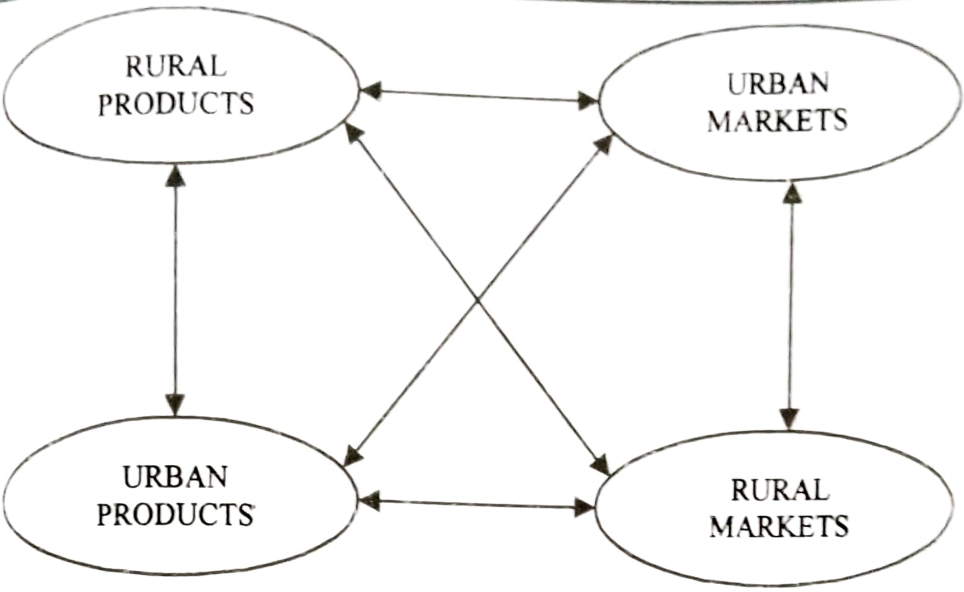

Figure 7.1 - Relationship between rural and urban markets

Figure 7.1 depicts the relationship between rural and urban markets. It shows that rural products produced in rural areas can move to urban and rural markets. These rural products are produced from materials available in the rural areas by rural entrepreneurs. In addition, the urban entrepreneurs can set up industries to manufacture urban products in the rural areas and market these produce in rural and urban areas.

At present in rural marketing, the emphasis is more on urban products produced in urban areas and marketed in rural areas. In villages, the necessary infrastructure such as road transport, telephone, drainage, water, and communication need to be developed. Villagers can be involved in infrastructural development work of rural areas to ensure their commitment. They should be educated on the attitude, aptitude and competency required. Mixing freely with rural folk is not easy. First step towards achieving that is becoming one with them to gain their confidence. Then, slowly they can be changed. Rural farmers who are in majority have been exploited by the land owners and big landlords for generations and hence they do not have faith in the *ruling elite*. We need to talk in their language and go to their level. Once we gain their confidence, they will be very co-operative.

Through entrepreneurial education and entrepreneurial development programmes rural mass can be educated. Common production-cum-marketing facilities need to be set up with modern infrastructural facilities and the rural entrepreneurship should be encouraged to take up the marketing of urban products. NGOs' help can be sought to develop rural entrepreneurship. Local leaders, who are *decision influencers* should be identified, and educated on the required skill and they will carry the people with them. Government and NGOs have to work in tandem to get results. Actionaid, Oxfam, Christian Children's Fund, SEWA, AWAKE, Indian Institute of Youth Welfare (IIYW), NAYE, World Assembly of Small and Medium Entrepreneur (WASME), Xavier Institute for Social Studies (XISS) "Y" Self employment of Calcutta, Rural Development and Self Employment Training Institute (RUDSETI), ANARDE are some of the NGOs working in rural areas. In every village in rural areas, there are Primary Health Centres and *Aanganwadis*.

A survey should be conducted to identify the available raw materials, human and other resources. Rural products lack in quality, finish and design. From urban areas, designers can create different designs for the rural products as per urban needs. The artisans and the workers should be trained for producing the required quality output. Co-ordination between urban needs and rural products is very essential for rural products to succeed. So that new product ideas could be generated, designs made, products of good quality produced and marketed in urban areas. KVIC takes up the responsibility marketing rural products produced in villages through their distribution network of retail outlets in cities.

Professor P.V. Indiresan, ex-Director of Indian Institute of Technology (IIT), Madras, discusses the importance of rural entrepreneurship and suggests methods for luring small enterprises to the villages. The rural people who have migrated to urban areas feel that the poor people in rich economy are better off than rich people in a poor economy. A son of a house maid in an urban area can study in an English medium school, can have access to electricity, TV, cooking gas, telephone and even to *Internet*, etc. Her family commands a 'higher' quality of life and her children have better future prospects than what rich landlords and their children command in India's villages. Cities have become overcrowded and congested, the problems in cities are physical and insurmountable, while in villages they are curable, provided sufficient investment is diverted to the rural areas. Agriculture which is the mainstay of villagers cannot grow faster than 2% at the most. Prof. P.V. Inderesan has identified three reasons as to why our rural areas are as poor as they are :

1. Agriculture is the mainstay
2. Investments are made in urban areas and rural areas have been neglected
3. The little amount spent in rural villages is wasted at micro level to help the individual villagers and not at the macro level of the village as a whole

Government must tackle the poverty of villages rather than the poverty of the villagers. Villagers cannot get rich so long as their villages remain poor. As a thumb rule, at least 80% of the rural population must make a living in non-agricultural occupations. For example, Cable TV net work has reached a majority of the rural household, whereas telephones are available only in one or two percent of the rural homes. Petty, semi-literate entrepreneurs have taken the cable TV even to the remote rural areas at no cost to the government and also without any government subsidy or support. On the other hand, telephone services are growing slowly and are concentrated only in large cities.

The explosion of cable TV is attributed to the absence of any government regulations and also due to their affordable price. What is learnt out of this example is that it is better to encourage such small entrepreneurs by freeing them from the clutches of government regulations, restrictions and licence. Prof. P.V. Inderesan has developed an Indian model which is as follows -

Steps to Promote Rural Entrepreneurship: It is recommended by Prof. P.V. Inderesan that to promote rural entrepreneurship, the government should completely de-license industry and commerce in rural areas. Just as income tax has been waived for agricultural income, the same exemption should be offered to all the rural activities, at least for 10 years. Other levies, such as excise duty, sales tax, corporate tax, customs duty, can be exempted. Small entrepreneurs should be encouraged to set up in rural areas. In return for tax holiday and exemptions and de-regulation, an entrepreneur can provide the following basic amenities to all the employees:

1. Sufficient residential space
2. Guaranteed supply of adequate potable water per day; and
3. 10 units of electricity per month.

In addition, the firm should contribute 10% of the average salary of a school teacher, and 1% of the salaries of a doctor and a nurse and 0.1% of the price of a bus per year. A firm has to pay penalty for any violation of the obligations and also when it pollutes the environment. These schemes make rural areas an attractive location for private enterprises to migrate. The business should be small, it need not be so tiny as to be unviable. *In return for exemptions from controls and taxes, entrepreneurs will offer basic needs like water, electricity, living space, education, health and connectivity as perquisites to all employees.* Currently, the government is committed to provide these services and meets the expenditure by imposing taxes. But in reality little of these taxes reach the rural areas. So, rural services are substandard, often non-existent.

Future of Rural Entrepreneurs

There is a lot of potential in rural entrepreneurship which needs to be tapped for the economic growth of our country. Guidance on design and technology could be provided. Appropriate products can be identified and produced in rural areas by motivating the rural entrepreneurs to undertake their production. They can also be helped to market the products in rural, urban and even in export markets. Also urban entrepreneurs could be encouraged to set up industries in rural India. This will stop the migration to urban areas. India's future lies in its villages.

Chapter 13

Project Appraisal

Introduction

Like the new product development and introduction process, business introduction too has different stages. These can be classified into–

Stage	*Step*	*Classification*
1.	Generation of business ideas	Project Identification and Project Classification.
2.	Identification of the business opportunity	Project Selection
3.	Business opportunity analysis through feasibility studies	Project Formulation or Project Analysis or Project Evaluation or Project Appraisal
4	Implementation of the business opportunity	Project Design or or Project Implementation
5.	Presentation of report	Project Report

From *business idea generation* to *business*, there are different stages in a project. A business idea in a *raw form*, after careful evaluation and feasibility studies is converted into an investment proposition. After such an evaluation only a business idea is said to be identified and selected. This stage is known as project identification and selection. After selection, it is converted into a project in the next stage. Project is a scientifically evolved work plan, devised to achieve a specific objective within a specified period of time.

In some books project formulation is covered in the third stage whereas some books discuss project formulation in the implementation stage *i.e.*, in the fourth stage. Project implementation also requires formulation. In implementation stage, PERT and CPM techniques are used for project formulation.

Classification of Projects

Projects have been classified in various ways by different experts. Little and Mirrelees divide the projects into quantifiable and non-quantifiable projects. The Planning Commission in India uses the sectoral criteria and, our Financial Institutions classify them on the basis of nature of the project.

1. **Quantifiable and non-quantifiable projects :** Quantifiable projects are those in which a quantitative assessment of benefits can be made, while non-quantifiable projects are those where such an assessment is not possible. Projects concerned with industrial development, power generation, mineral development are examples of former, while health, education and defence belong to the latter category.

2. **Sectoral Projects :** Indian Planning Commission uses the classification for the purpose of resource allocation at macro level. They have classified projects into:
   - (a) Agriculture and Allied Sector
   - (b) Irrigation and Power Sector
   - (c) Industry and Mining Sector
   - (d) Transport and Communication Sector
   - (e) Social Services Sector
   - (f) Miscellaneous Sector.

3. **Techno-Economic Projects :** Classification on Techno – Economic aspects are as follows:
   - (a) The *intensity* factor is used as base for classification such as capital-intensive, labour-intensive
   - (b) Cause based oriented projects like – demand, raw material or resource, import substitution and export based projects.
   - (c) Classification on the basis of magnitude of investment and operations such as large, medium, small and tiny scale .

United Nations and its specialised agencies use the *International Standard Industrial Classification* (ISIC) in collection and compilation of economic data. The economic activities are grouped into ten divisions and further sub-divided 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 Communication
Division 8	-	Services
Division 9	-	Activities not adequately described

4. Classification by Financial Institutions

Financial institutions classify the projects according to their age, experience and purpose for which the project is being taken up. They are as follows: The projects listed are generally profit-oriented,

(i) New projects
(ii) Expansion projects
(iii) Modernisation projects
(iv) Diversification projects.

The service-oriented projects are classified as :

(i) Welfare projects
(ii) Service projects
(iii) Research and Development projects
(iv) Educational projects

Project Life Cycle

Like product Life cycle, projects also have a life cycle. A Project Life Cycle consists of three main stages:

1. **The Pre-investment Phase:** It is the first phase which contains demand forecasting, evaluation of input, projections of the financial profile, objective formulation, selection of strategy, cost-benefit analysis and pre-investment appraisal. *The project idea is developed into an investment proposition during this phase.*

2. **The Construction Phase :** This phase begins after the investment decision is taken. Resources are invested in building the assets of the project like land, building, plant, machinery, communication services marketing organisation, man power resources. PERT and CPM techniques are used in this phase of the project.

3. **The Normalisation Phase:** This phase starts after the trial run is over. The objective of the business – to produce the goods and services – is established.

PROJECT APPRAISAL

After the project is decided upon and before the entrepreneur approaches a lending institution, he needs to understand the evaluation methods employed by the lending institutions for obtaining any financial assistance. Some aspects of the feasibility are also used for the purpose of appraisal. If an entrepreneur is aware of the project appraisal methods, he can anticipate the requirements of the lending institutions and match his answers accordingly to ensure that answers are available in the project report.

Meaning of Project Appraisal : Assessing the viability or feasibility of a proposed project by the lending institutions is called 'project appraisal". The difference between feasibility and appraisal is, that the feasibility is done by the entrepreneur or his consultant, while appraisal is done by the investors and lending institutions. Entrepreneur also does the appraisal when he has to choose between two or more alternative projects. Project appraisal is *ex-ante analysis*. It identifies and values the expected costs and benefits of a project. Project evaluation is *ex-post analysis* of an executed project. However, sometimes the concepts of appraisal and evaluation are used interchangeably, but both mean the same. Different analyses are done in the different stages of the project appraisal.

Project appraisal is a process of transmitting information accumulated through feasibility studies into a comprehensive form in order to enable a decision maker undertake a comparative appraisal of various projects .

Different methods are used by lending institutions to evaluate a project proposal. Marketing, economic, financial, management, and social feasibilities are studied by lenders/ investors as well. In this chapter, we shall discuss the various profitability appraisal methods used for evaluation. They are –

1. payback period
2. return on investment
3. discounted cash flow
4. internal rate of return
5. net present value
6. profitability index

Payback Period Technique

One of the most commonly used techniques for evaluating investment proposals is the *cash pay back* or *payback period*. It attempts to calculate the period known as payback period required to recover the initial investment out of inflow of net cash flows/savings or profit from the investment. In other words, it represents the number of years in which the investment is expected to 'pay for itself'.

$$\text{Payback Period} = \frac{\text{Original cost of Investment}}{\text{Annual net cash inflows or savings}}$$

$$P = I/S \text{ or } I/C \text{ or } I/E$$

Where,

P = Payback period

I = Initial Investment

S = Savings per year

C = Annual Cash inflow

E = Earnings per year

This method is suitable for relatively small projects that are expected to be completed in a short time. However, it does not take into consideration the years beyond the payback period. The basis is liquidity and not profitability. It overlooks cost of capital .

Return on Investment (ROI)

ROI is defined as the ratio of profit (net of depreciation and taxes) to initial capital outlay. The figure is compared to the cost of capital. If the project does not yield the desired ROI, it is not accepted. If there are a number of projects under consideration, then they are ranked on the basis of ROI and the project with the best ROI or those above the desired ROI is/are selected. Different methods are used for the purpose of calculating ROI. For example,

$$\text{Average Rate of Returns} = \frac{\text{Annual net Income}}{\text{Average Investment}} \times 100$$

Average investment = initial investment + scrap value/ life of asset

Discounted Cash Flow

Money has a *time value*. It means that the value of money changes over time. An amount of Rs. 100 received after one year will not have the same value that it has today. The cash flow received in different years have different values. In earlier methods, the time value of money was not taken into account. Discounting is the opposite of compounding. In compounding, the rate of interest, the future value of the present money is ascertained. In discounting, the present value of the future money is calculated to enable us to make decisions today.

$$\text{Present Value} = \frac{A_1}{(1+r)} + \frac{A_2}{(1+r)^2} + \frac{A_3}{(1+r)^3} + \ldots\ldots \frac{A_n}{(1+r)^n}$$

where $A_1, A_2, A_3 — A_n$ = Future net cash flows (profit after tax but before depreciation), r = rate of interest desired , 2,3,— and n = number of years. Present value can also be found by the use of Present Value Tables.

Internal Rate of Return

Under this method, the 'life' of the project is usually fixed and the discount rate at which the present value of net cash inflow during that chosen 'life' equals the initial outlay. In other words, it reduces the net present value to zero. The IRR is arrived at through an iterative process and for different lengths of 'life' of the project.

Net Present Value

In this method, the discount rate should be equal to the company's weighted average cost of capital. In this method, future cash inflows are discounted to the present value. This is the Gross Present Value of the cash flows. From this, the present value of the cost of the project (*i.e.*, cash outflow) is subtracted. The resulting surplus is the net present value of the investment. The best project is the one which has the highest net present value.

Profitability Index

It is also called present value profitability index or benefit cost ratio.

$$\text{Profitability Index} = \frac{\text{Present Value of gross cash inflows}}{\text{Initial cash outlay}}$$

$$\text{Present Value Index} = \frac{\text{Present Value of Operating Inflows}}{\text{Present Value of Net Investment}} \times 100$$

Risk Adjusted Discount Rate

In Risk adjusted discount rate (RADR), the discount rate is adjusted in accordance with the degree of risks. Higher the risk, higher the discount rate. For example, if 3 projects have mild risk, moderate risk and high risk, the discount rate would be 12%,13%,14% respectively.

An entrepreneur must be knowledgeable about profitability appraisal methods. This will help him evaluate his business ideas and in preparation of project reports.

Risk and Uncertainty

A project appraisal can be done under three different situations. The assumptions can be *certainty, risk* and *uncertainty*.

A ***certainty*** situation is one where the future occurrence of a particular outcome such as future cash flow or discount rate could be expected with certainty. But, in practice, all investment decisions are undertaken under conditions of risk and uncertainty.

Risk refers to a situation where the probability distribution of a particular outcome could be objectively known in advance. Uncertainty refers to a situation where the probabilities are not known, but only guessed. For example, risks can be covered with various insurance policies. But the *uncertainty* could be due to change in Government policies, natural calamities, price fluctuation, etc. Uncertainty is minimised by employing some modern quantitative techniques such as systems analysis, operations research, marketing research, network analysis etc. The use of these techniques could make the estimates more realistic for an appraisal.

Formation of Business Idea Through PERT and CPM Techniques

Network Techniques

It is important that an entrepreneur knows how a business idea is formulated. At this stage, the step by step approach of the project implementation is developed. In project formulation stage, Programme Evaluation and Review Technique (PERT) and Critical Path Method (CPM) are widely used techniques.

Basic concepts in Network Analysis

A network is a series of related activities which are required to achieve the goals of a business.

Activity refers to action which is a time consuming effort necessary to complete a specific event. Each activity has a point of time where it begins and a point where it ends. Laying the foundation, construction of walls, plastering, painting etc., are examples of activities. An activity is shown by an arrow and it begins and ends with an event.

Event refers to the start or completion of some activity and as such consumes neither time or resources. Event denotes the beginning and end of an activity. Foundation laid, walls built, walls plastered and building painted are examples of events. It is represented by a circle in a network diagram and normally the event number is written within the circle. Network diagram representation of the various activities and events relate to a project.

PERT Programme Evaluation and Review Technique

This technique was developed during 1950s by the Naval special projects office in Co-operation with Booz, Allen and Hamilton, a management consultant firm. PERT schedules the sequence of activities to be completed in order to accomplish a project within a short period of time. It helps to reduce both the time and cost of the project. If the project is completed before schedule, then there is savings in cost. Similarly, if the project gets delayed, then the costs will go up beyond the budget. The steps involved in PERT are as follows:

(i) Identification of the activities in the project and establishing the sequential relationship to show what activity follows after what.

(ii) Activities that can be carried out simultaneously are identified.

(iii) Estimation of the *most optimistic time, most likely time* and *most pessimistic time required* to complete each of the activity.

(iv) The critical activities of the project are determined.

(v) The variability of the project duration and probability of the project completion in a given time period are calculated.

This technique does not cover the resources required at the different stages of the project

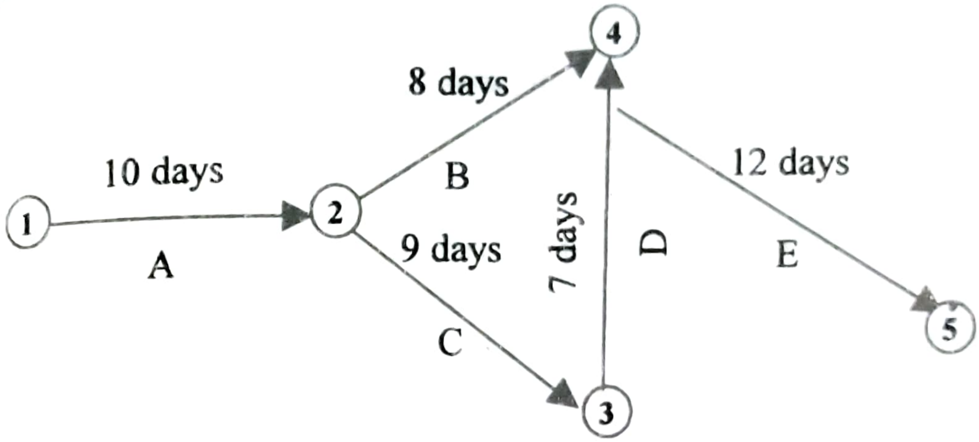

Figure 13.1 – PERT Network Diagram

In the diagram shown above, each circle represents an event and each arrow represents an activity. Circle 1 is the starting event and circle 5 is the finishing event. The names of the activities such as A,B,C ,D and E are– Forecasting of sales, sales pricing, production scheduling, cost determination and preparation of budget.

Burst is the event for more number of activities. In the figure 13.1, event 2 may be called ***burst***.

Node. When an event is an ending event for more number of activities. Event 4 is a *node* in the above diagram.

Critical Path. It is the sequence of activities in the network that takes the longest time to complete. The time of the critical path determines, the time required for the completion of the project.

Critical Activities. All the activities within the critical path are called critical activities. Any delay in the completion of one or more of these activities will be the cause for delay in completion of the project.

Preceding Activities. Activities which must be finished before a given event can occur are termed as preceding activities.

Succeeding Activities. Activities which cannot be accomplished until an event has occurred are termed as succeeding activities.

Concurrent Activities. Activities which can be accomplished simultaneously are termed as concurrent activities. Refer the activities B and C in the figure 13.1.

Dummy Activities. A dummy activity is an imaginary activity which consumes neither time nor resources. It is also called Zero-time activity.

Slack. A Slack in PERT and float in CPM refer to the spare time. The time for which the activity may be delayed without affecting the overall completion of the project. It may be positive or negative. Positive slack represents idle time which does not require any resources. Negative slack occurs when the project requires more resources than that are normally available.

Forward Pass. The objective is to determine the earliest expected start and finish of the activities of a project.

Backward Pass. It is the process of determining the latest allowable starting and finishing time of an activity. The computation starts at the end event of a project and traverses backward. In forward pass, it starts from starting point and moves forward.

Earliest Start Time (EST). It is an earliest time an activity can begin on the assumption that all the preceding activities started at the earliest possible time.

Latest Start Time (LST). It is the difference between the latest finish time and the estimated time for the activity to be performed.

Earliest Finish Time (EFT). It is the sum of the earliest start time and the estimated time to perform the concerned activity.

Latest Finish Time (LFT). It is the latest possible time an activity can end without delaying the project beyond its dead line on the assumption that all the subsequent activities are performed as planned.

Total Float. It is the additional time which a non-critical activity can consume without increasing the project duration. However, total float may affect the floats in the preceding and subsequent activities. It can be positive or negative.

Total Float = LST – EST or EFT – LFT

Free Float. If all the non-critical activities start as early as possible, the surplus time is the free float. Free float, if used, does not change the float in later activities.

Free Float = EST of tail event – EST of head event – Activity duration.

Independent Float. The use of independent float of an activity does not change the float in other activities. Independent float is taken as zero if it turns out to be negative.

Independent Float = EST of tail (succeeding) event – LFT of head (preceding) event – Activity duration.

Critical Path Diagram

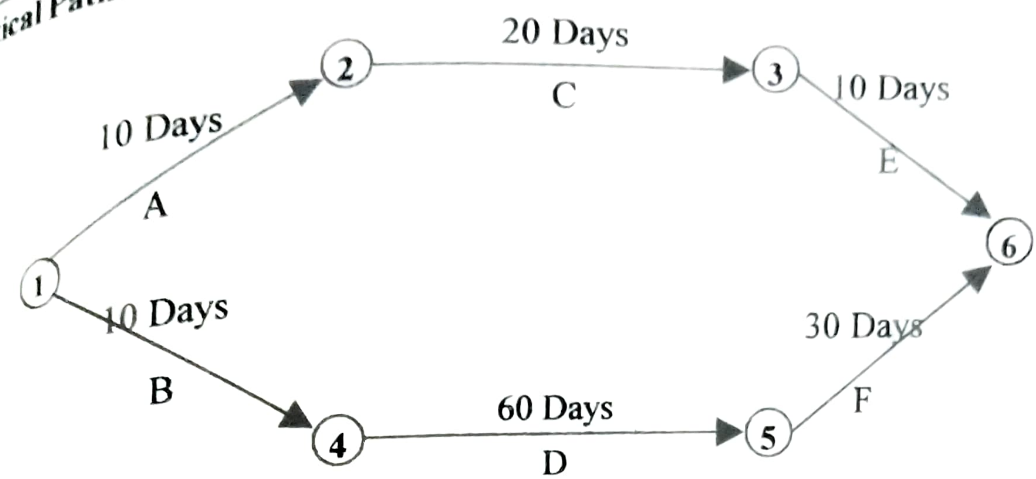

Figure 13.2 – Critical Path Diagram

The Critical Path Method (CPM) was first developed in USA by the Du Pont Company and Remington Rand. It differentiates between planning and scheduling. Planning refers to the determination of activities that must be accomplished and the order in which they should be performed in order to achieve the objectives of the project. Scheduling, refers to the introduction of time into the plan thereby creating a time schedule for the various activities so that there is a precise known time that each activity in the project will take. The duration of different activities in CPM are deterministic.

The salient features of CPM are :

(a) It determines the critical or bottleneck activities and the critical path on which the project duration depends.

(b) It gives the most economical schedule for a fixed duration.

(c) It determines the pattern of the allocation of available limited resources.

After preparing the network diagram and noting down time for each activity, the various paths (*i.e.*, sequence of activities on different routes) should be listed out separately. Identify the route that takes the longest time in the completion of the project. It is the critical path. The activities on that path are also identified. The critical path enables the management to identify potential bottlenecks. It highlights those activities which must be performed quickly so as to reduce the project completion time. The EST and EFT values for each activity are useful for the completion of critical path. The LFT and EFT for various activities are estimated. If any activity has slack which means that such activity may be delayed up to that slack time without having any effect on the duration of the total project.

There are few differences between PERT and CPM. They are –

Differences Between PERT and CPM

PERT	CPM
• Its origin is in military	• Its origin is in industry
• It is an event-oriented approach	• It is an activity-oriented approach.
• It allows uncertainty	• It does not allow uncertainty
• It is a probabilistic model	• It is a deterministic model
• It is time based	• It is cost based
• It does not demarcate between critical and non-critical activities	• It marks critical activities
• It averages time	• It does not average time
• It is suitable when high precision is required in time estimates, e.g. defence projects.	• It is suitable when reasonable precision is required e.g. construction projects, industrial expansion schemes, etc.
• It estimates 3 different times of completion.	• It estimates only one completion time.

Apart from PERT and CPM, there are other network techniques such as

GERT: The Graphical Evaluation and Review Technique. It is more superior to CPM and PERT. It allows for probabilistic events while all the events in CPM and PERT are deterministic. In GERT network, only simulation can be used.

LOB: Line of Balance uses graphic techniques to show the progress achieved on the project with respect to key events.

WASP: It is Workshop Analysis Scheduling Programme, developed by British Atomic Energy.

Review Questions

Chapter 14

Project Report

Project identification is done first. Then, on the basis of the research and feasibility studies, selection is made. Preparation of Project report is the last stage. Although, project appraisal is done after project report is presented, we have discussed appraisal project in the previous chapter, since an understanding of appraisal methods will help the entrepreneur in preparation of project report.

Project report is the presentation of detailed business plan in writing. The project reports are used primarily for raising capital. It is a *blue print* of the business plan. It is like a road map. The objective of business plan is to also attract investors and lenders. Banks and financial institutions appraise a project on the basis of the project report submitted.

We understand about feasibility studies and evaluation methods in earlier chapter. At that stage, alternatives were considered and 'go' or *'no-go'* decisions were taken. After the completion of such an exercise, decisions are taken. Then the final business plans are presented in the form of a project report.

Meaning of Project Report : It is a written document that (i) summarizes a business opportunity. It explains why the opportunity exists and why the management team has selected the opportunity for execution; and (ii) defines and articulates how the management team expects to seize and execute the opportunity identified. A brief outline of the project report in the form of *framework adapted from Jeffry Timmons, New Venture Creation, IRWIN, 1994* is presented to enable the entrepreneur to understand as how to prepare a project report.

Cover

The cover page contains details such as the name of company, its address, its telephone number, E-mail address, website address and date. It specifies to whom the report is submitted and the purpose. For example, Report submitted to the State Bank of Mysore, Kilpauk Branch, for obtaining Term loan etc.

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7. Manufacturing and operation plan
8. Management team
9. Overall Schedule
10. Critical risks, problems and assumptions
11. Financial Plan
12. Proposed company offering
13. Appendices

1. Executive Summary

Executive summary is a brief which gives a bird's eye view of the business plan. Many investors, bankers, managers and other readers analyse the summary to determine quickly whether the venture the report describes is of any interest to them. The executive summary usually contains a paragraph or two covering the following aspects:

(i) *Description of the business concept and the business*: A brief description, in about 25 words, mentioning the specific product or service.

(ii) *The opportunity and strategy:* Summarizes what the opportunity is, why it is compelling and the entry strategy planned to exploit. The information on description of industry , market size, demand, supply, growth opportunity, etc.

(iii) *The target market and projection:* Identify who the consumers will be, what position the product will occupy in the market. The structure of the market is to be described.

(iv) *The competitive advantage*: Indicate the competitive advantage your product or service has over the competitors. The benefits and the additional value and benefit the consumers will have, using your product,

(v) *The economics, profitability and harvest potential:* Specify the anticipated gross margin, operating margin and profit on the basis of forecast sales and costs.

(vi) *The team:* Summarize the relevant knowledge, experience, know-how and skills of the lead entrepreneur and any other team member. The entrepreneur's qualification, experience, age, and details pertaining to previous achievements.

(vii) *The offering*: Briefly indicate the amount of equity or debt financing needed, the investment of the company. How the targeted investor, lender or strategic partner will achieve there desired rate of return.

(viii) *Exit route*: Specify how will you withdraw from the business.

2. The Industry and the company, its products or services

A. The industry

(i) Present the current status and prospects for the industry in which the proposed business will operate. Present the industry structure in the form of organised, unorganised, and *grey* sectors. Whether monopolistic, duopoly, etc.

(ii) Discuss briefly the market size, growth, trends and competitors.

(iii) Discuss any new products or developments, new markets and customers, new requirements, new entrants and exits, any other national or economic trend and factors that could influence the venture positively or negatively.

B. The company and the concept

(i) Describe the business concept, in terms of what products or services it will offer and who are or will be its principal customers.

(ii) Describe the identification of the business idea and opportunity identification and product development.

C. The Products or Services

(i) Describe in some detail each product or service to be sold

(ii) Discuss the application of the product or service and describe the primary end use as well as any significant secondary applications.

(iii) Emphasise any unique features of the product or service and how these will create or add significant value; also highlight any differences between what is currently in the market and what you will offer that will account for your market penetration. Be sure to describe how value will be added and the payback period to the customer, repurchase rate.

(iv) Define the present state of development of the product or service and how much time and money will be required to fully develop, test and introduce the product or service. Provide a summary of the functional specifications and photographs, if available, of the product.

(v) Discuss any head start you might have that would enable you to achieve a favoured position in the industry.

(vi) Describe any feature of the product or service that gives it a great advantage over competition. Describe any patents, trade secrets, trade mark-registered features of the product or service.

(vii) Discuss any opportunities for the expansion of the product line or the development related products or services.

Entry and growth strategy

(i) Indicate key success variables in your marketing plan (example, an innovative product, timing advantage, or marketing approach) and your pricing, distribution, advertising and promotion plans.

(ii) Summarize how fast you intend to grow and to what size in the first five years and your plans for growth beyond your initial product or service.

(iii) Show how the entry and growth strategy is derived from the opportunity and value-added or other competitive advantages, such as the weakness of competitors.

3. Market Research and Analysis

Other sections of the business plan depend on market research findings.

(i) Discuss who the customers for the products or service are or will be, identified on the basis of research and analysis. Divide them into segments or groups and specify which segment the company intends to serve.

(ii) Show who and where the major purchasers for the product or service are in each market segment. Include regions or countries for export market as appropriate.

(iii) Indicate how customers are easily reached and receptive, how customers buy, where in their organisation buying decisions are made, and how long such decisions take. This is applicable for the products that are used in the organisations. Describe customer's purchasing processes, including the bases on which they make purchase decisions (*e.g.* price, quality, timing, delivery, political pressures, etc.,) and why they might change current purchasing decisions.

(iv) List any orders, contracts or letters of commitment that you have in hand. These are the most powerful data you can provide. List also the potential customers who have shown initial interest and also those who have not shown interest and explain how you will overcome the negative customer reaction. Indicate how fast you believe your product or service will be accepted in the market.

4. Market size and trends

(i) Show for five years the size of the current total market and the share you will have – market segment, region, or country wise for the product or service, and potential profitability.

(ii) Describe also the potential annual growth for at least three years of the total market for your products or services for each major customer group, region or country.

(iii) Discuss the major factors affecting market growth (e.g. industry trend, socio-economic trend, government policy, population shifts) and review the previous trends. Any differences between past and projected annual growth rates should be explained.

B. Competition and competitive edges

(i) Make a realistic assessment of the strengths and weaknesses of competitors. Assess the substitute and alternative products or services and list the companies that supply them, both domestic and foreign.

(ii) Compare competing and substitute products or services on the basis of market share, quality, price, performance, delivery time, service, warranties and other pertinent features.

(iii) Compare the fundamental value that is added or created by your product or service, in terms of economic benefits to the customers.

(iv) Discuss the current advantages and disadvantages of these products and services and say why they are not meeting the customer needs.

(v) Indicate any knowledge of competitor's activity that could lead you to new or improved products and an advantageous position.

(vi) Review the strengths and weaknesses of the competing companies and determine and discuss the share of the market of each competitor, its sales, its distribution methods and its production capabilities.

(vii) Review the financial position, resources, costs and profitability of the competitors and their profit trends.

(viii) Indicate who are the service, pricing, performance, cost and quality leaders. Discuss why a company, if any, has entered or dropped out of the market in recent years.

(ix) Discuss three or four key competitors and why customers buy from them and determine and discuss why customers leave them.

(x) From what you know about the competitors' operations, explain why you think they are vulnerable and that you can capture a share of their business. Discuss what makes you think it will be easy or difficult to compete with them. Discuss particularly your competitive advantage.

C. Estimated Market Share and Sales

(i) Summarize features of your products or services that will make it saleable in the face of current and potential competition. Mention the fundamental value added or created by the products or services.

(ii) Show how the growth of the company sales in units and its estimated market share are related to the growth of its industry and customers and the strengths and weaknesses of competitors. Remember, the assumptions used to estimate the sales have to be clearly stated.

D. Ongoing market evaluation

(i) Explain how you will continue to evaluate your target markets so as to assess customer needs and services and to guide the product-improvement programme and new product programme. Also plan for expansion of your production capacity and guide product or service pricing.

Gross and operating margins

(i) Describe the magnitude of the gross margins (*i.e.*, selling price less variable costs) and the operating margins for each of the proposed product or services. Include the contribution analysis.

Profit potential and durability

(i) Using the Break-Even-Point, profit can be forecast. The following figure shows the profit - forecasting using BEP.

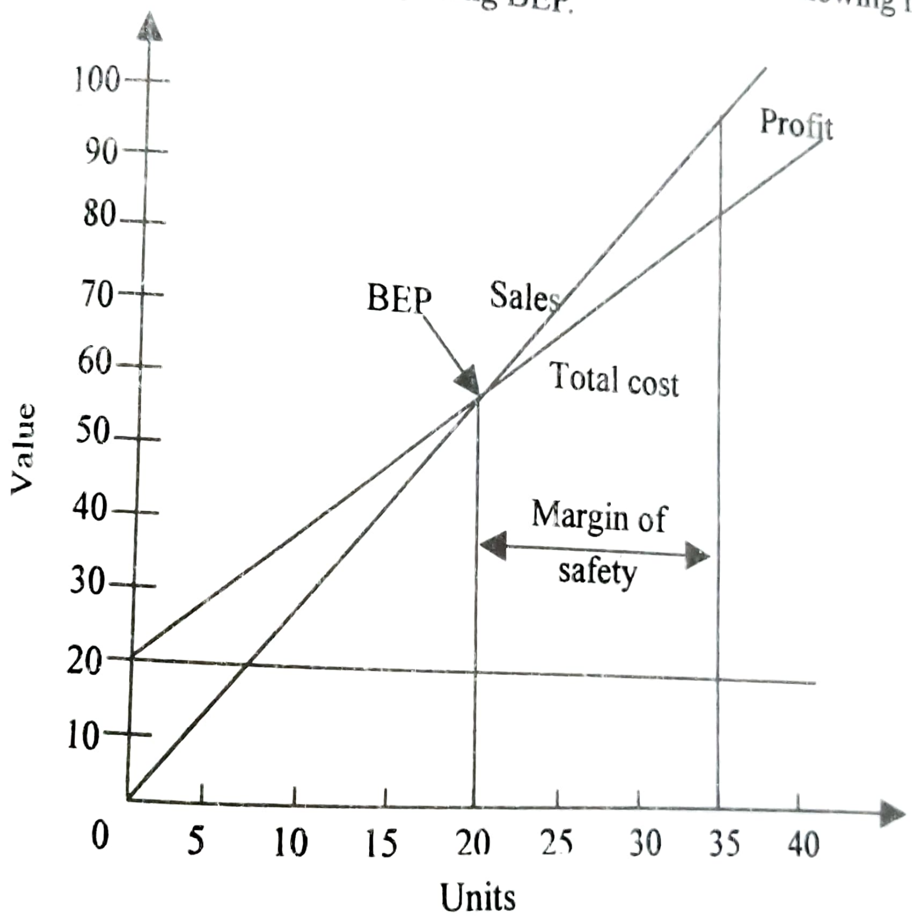

Figure 14.1 – Forecasting Profit, using BEP

Profit-forecasting

(i) Describe the magnitude and expected durability of the profit stream that the business will generate – before and after taxes and refer appropriate industry benchmarks.

(ii) Discuss if there will be any barrier to entry in future you can create, and lead time which will address the issue of durability of profit.

8. Fixed, variable and semi-variable costs

Provide a detailed summary of fixed, variable and semi-variable costs as percentages of total cost as appropriate for the product or services you offer and the volume of purchases and sales upon which these are bas with industry benchmarks.

C. Break-even time

Given your entry strategy, marketing plan, and proposed financing, sho how long it will take to reach break-even sales level in terms of units. Al the estimation of time to generate positive cash flows. In future, whe you grow or expand by adding capacities, the time required for breakin even.

5. MARKETING PLAN

The marketing plan describes how the sales projections will be attained. The marketing plan should detail the overall marketing strategy that will exploi opportunity and your competitive advantages. Include a discussion of sales and service policies, pricing, distribution, promotion, and advertising strategies and sales projections. The marketing plan needs to describe what is to be done, how when and who will do it. The marketing strategies will be discussed in detail in the next chapter.

A. Overall marketing strategy

(i) Describe the specific marketing philosophy and strategy of the company, given the value chain and channels of distribution in the market segment you are pursuing. How the specific potential customers in the group will be identified and how they will be contacted, what features of the product and service will be emphasised to generate sales.

(ii) Indicate whether the products or services will initially be introduced internationally, nationally or regionally, explain why and if appropriate, indicate any plans for extending sales at a later date.

(iii) Discuss any seasonal trend; if any and what can be done to promote sales during non season.

(iv) Describe any plans to obtain government contracts.

B. Pricing

(i) Discuss pricing strategy, including the prices to be charged for your product or service and compare your pricing policy with those of your major competitors.

(ii) Discuss the gross profit margin between manufacturing and ultimate sales costs and indicate whether the margin is large enough to allow for distribution and sales, warranty, training, service, costs.

(iii) Explain how the price you set will enable you (a) to get the product or service accepted (b) to maintain and increase your market share in the face of competition; and (c) to produce profits.

(iv) Justify your pricing strategy and differences between your prices and those of competitive or substitute products or services in terms of economic payback to the customer and value added through newness, quality, warranty, timing, performance, service, cost savings, efficiency and the like.

(iv) If your product is to be priced lower than those of the competition, explain how you will do this and maintain profitability (e.g. through greater value added via effectiveness in manufacturing and distribution, lower labour costs, lower material costs, lower overhead or other components of cost)

(v) Discuss your pricing policy including a discussion of the relationship of price, market share, and profits. For example, a higher price may reduce volume but result in a higher gross profit.

(vi) Describe any discount allowances for prompt payment or volume purchases.

C. Sales tactics

(i) Describe the methods – your own sales force, sales representatives, direct mail or distributors – who will be engaged to the product or service. Both the initial plan and longer-range plans for the sales force. Include a discussion on any special requirements (Example – Providing a refrigerator for selling cool drinks.)

(ii) Discuss the value chain and the resulting margins to be given to retailers, distributors, wholesalers and sales persons and any special policies regarding discounts, exclusive distribution rights given to distributors or sales representatives and compare these to those given by your competitors.

(iii) Describe how the distributors or sales representatives, will be selected, the areas they will cover and the expected sales to be made by each.

(iv) If a direct sales force is to be used, indicate how it will be structured and indicate if it is to replace a dealer, if so, when and how.

(v) If direct-mail, magazine, newspaper, or other media, tele-marketing or catalogue sales are to be used, indicate the specific channels or vehicles, costs (per 1000) and expected response rates.

(vi) Show the sales expected per salesperson per year and what commission, incentive and salary they are slated to receive and compare these figures to the average for your industry.

(vii) Present a selling schedule and a sales budget that includes all marketing promotion and service costs.

D. Service and warranty policies

(i) If your company will offer a product that will require service, warranties or training, indicate the importance of these to the customers' purchasing decisions and discuss your method of handling service problems.

(ii) Describe the kind and term of any warranties to be offered, whether service will be handled by company service people, agencies, dealers and distributors or service contractors.

(iii) Indicate the proposed charge for service calls and whether service will be profitable or only a break-even operation.

(iv) Compare your service warranty policies and practices to those of your principal competitors.

E. Advertising and promotion

(i) Describe the approaches the company will use to bring its product or service to the attention of prospective purchasers.

(ii) For original equipment manufacturers and for manufacturers of industrial products, indicate the plans for trade show participation, trade magazine advertisements, direct mailing, the preparation of product sheets and promotional literature and use of advertising agencies.

(iii) For consumer products, indicate what kind of advertising and promotional campaign is contemplated to introduce the product and what kind of sales aids will be provided to dealers, what trade shows are required.

(iv) Present a schedule and approximate costs of promotion and advertising (direct mail, tele-marketing, catalogues, etc.) and discuss how these costs will be incurred.

F. Distribution

(i) Describe the methods of channels of distribution you will employ.

(ii) Indicate how sensitive shipping cost is as a percent of the selling price.

(iii) If international trade is involved, note how these sales will be handled including distribution, shipping, insurance, credit and collections.

(iv) Indicate if the distribution is to be done by a marketing agency. An agreement of contract to be produced.

6. Design and Development plans

- The design and development costs are often underestimated. Design and Development is an engineering work for converting a laboratory prototype to a finished product. For example, the design of a special tool.

(i) Describe the current status of each product or service and explain what remains to be done to make the product or service marketable.

(ii) Describe briefly the competence or expertise that your company has or will require to complete this development.

(iii) List any customers or end users who are participating in the development, design and testing of the product or service. Indicate results to date or when results are expected.

B. **Difficulties and risks**

(i) Identify any major anticipated design and development problems and approaches to their solutions.

(ii) Discuss the possible effect on the cost of design and development, on the time to market introductions and such problems.

C. *Costs*

(i) Present and discuss the design and development budget, including the cost of labour, material, consulting fees and so on.

(ii) Discuss the impact on cash flow projections of underestimating this budget .

E. **Proprietary issues**

(i) Describe any patent, trademark, copyright or intellectual property rights you own or you are seeking.

(ii) Describe any contractual rights or agreements that give you exclusivity or proprietary rights.

7. Manufacturing and Operations Plan

This plan will to include such factors as plant location, the type of facilities needed, space requirement, capital equipment, labour force, inventory control policies, purchasing, production control and which part of the product will be purchased and which operations will be performed by your work force (make or buy decisions). A service may be required to be in proximity located (proximity to customers).

A. **Operating cycle**

(i) Describe the lead/lag times that characterize the fundamental operating cycle in your business.

(ii) Explain how any seasonal production loads will be handled without severe dislocation.

B. **Geographical location**

(i) Describe the planned geographical location of the business. Include any location analysis you have done. The issues in the location problems and the criteria to be used for decision making are discussed in the earlier chapter in detail. Keeping in view those issues, the location decision is taken.

(ii) Discuss any advantages or disadvantages of the site location in terms of such factors as labour, wages, closeness to customers or suppliers, access to transportation, state or local taxes, incentives and benefits, access to utilities like water, power, steams which are very important in Indian context.

C. **Facilities and improvements**

(i) For an existing business, describe the facilities, including plant and office space, storage and land area, special tooling, machinery and other capital equipment currently used to conduct company's business and discuss whether these facilities are adequate. Discuss any economies of scale.

(ii) For a start up, describe how and when the necessary facilities to start production will be acquired.

(iii) Discuss whether equipment and space will be leased or acquired and indicate the costs and how much of the proposed financing will be devoted to plant and equipment.

(iv) Explain future equipment needs in the next three years.

(v) Explain how and when, in the next three years, plant, space and equipment will be expanded to the capacities required by future sales projections and any plans to improve or add to existing plant, space or move the facility; indicate the timing and cost of such acquisitions.

D. **Strategy and plans**

(i) Describe the manufacturing processes involved in production of your product and any decision with respect to subcontracting of component parts, rather than complete in-house manufacture.

(ii) Justify your proposed make-or-buy policy in terms of inventory financing, available labour skills, production cost and capability issues.

(iii) Discuss who potential subcontractors and suppliers are and some information about them.

(iv) Present a production plan that shows cost/volume information at various levels of operation with breakdown of material, labour, purchased components and factory overhead and that shows the inventory required at various sales levels.

(v) Describe your approach to quality control , production control whether ISO certification is to be obtained.

E. **Regulatory and Legal issues**

(i) Discuss here any relevant state, central or foreign regulatory requirements unique to your product, process or service. List any permission, license, government approval necessary to begin operation. It may vary from region to region, country to country, industry to industry. Some industry have specific laws applicable to them only.

(ii) Discuss any legal or contractual obligations that are pertinent as well.

8. Management Team

This section of the plan includes details of the key persons, an outline of the organisation structure, description of the board of directors, Details about the committee if any.

A. Organisation

Present the key management roles in the company and the individuals who will fill each position. Show the organisation chart. Depicting the relationships and who reports to whom and size.

B. Key management personnel

(i) For each key person, describe in detail career highlights, relevant know-how, skill and track record of accomplishments that demonstrates his ability to perform the assigned role.

(ii) Describe the exact role, duties, responsibilities for each key member of the management team.

(iii) Complete resumes for each of the key management member need to be included here or as an exhibit and need to stress relevant training, experience and concrete accomplishments, such as profit and sales improvement, labour management success, manufacturing or technical achievements and meeting of budgets and schedules.

C. Management compensation and ownership

(i) State the salary to be paid, the stock ownership planned, and the amount of their equity investment, if any, of each key member of the management team.

(ii) Describe any stock options planned.

(iii) Describe any performance dependent stock option or bonus plans.

(iv) Summarise any incentive stock option or other stock ownership plans planned for key personnel.

(v) Specify the ownership structure of the firm. Whether Proprietary, partnership, Company – private or public Limited or Co-operative .

D. Board of Directors

(i) The size and the composition of the board.

(ii) Identify any proposed board members, if any.

E. Supporting professional advisors and services

(i) Indicate the supporting services that will be required such as canteen and hospital.

(ii) Indicate the names and affiliations of the legal, accounting, advertising, consulting and banking advisors selected for your venture and the services each will provide.

9. Overall Schedule

A schedule that shows the timing and interrelationship of the major ever necessary to launch the venture and realise its objectives is an essential part a business plan. This schedule can be arrived at by using PERT or CPM. Prepa month by month schedule that shows the timing of activities like sale programme, production and operations of the project.

10. Critical Risks, Problems and Assumptions

All the business plans are based on certain assumptions. The plan will wor only when those assumptions work. Discuss assumptions and risks implicit i your plan. What has been planned to cover the risk and uncertainty in business Be sure to discuss assumptions concerning sales projections, customer orders

11. The Financial Plan

The purpose of the financial plan is to indicate the venture's potential and to present time table for financial viability. It can also serve as an operating plan for financial management using financial benchmark. As part of the financial plan financial exhibits have to be prepared.

A. Actual Income Statements and Balance Sheets

For existing business, prepare income statements and balance sheet for the current year and for the prior two years.

B. Pro forma Income Statement

Using sales forecasts and the accompanying production or operations cost. prepare pro forma income statement for at least the first three years.

Pro Forma Income Statement–Exhibit I

	2001 Rs.	2002 Rs.	2003 Rs.
Net Sales	1,100,000	1,200,000	1,300,000
Cost of Sales			
Materials	407,000	444,000	481,000
Direct labour	143,000	156,000	169,000
Other Costs	44,000	48,000	52,000
Total Costs	594,000	648,000	702,000
Gross profit	506,000	552,000	598,000
Operating expenses			
Factory	154,000	68,000	182,000
Selling	110,000	120,000	130,000
Administrative	33,000	36,000	39,000
Total expenses	297,000	324,000	351,000
Income before owners' salary	209,000	228,000	247,000
Owners' salary	50,000	60,000	70,000
Income before debt payments	159,000	168,000	177,000

C. **Pro forma balance sheet**

Prepare pro forma balance sheets semi-annually in the first year and at the end of each of the first three years of operation.

Pro Forma Balance Sheet Exhibit II

Assets	2001 Rs.	2002 Rs.	2003 Rs.
Current Assets			
Cash	11,000	12,000	13,000
Accounts receivables	99,000	108,000	117,000
Merchandise inventories	77,000	84,000	91,000
Prepaid rent	4,250	4,250	4,250
Total Current Assets	191,250	208,250	225,250
Machinery, furniture & fixtures	50,000	50,000	50,000
Total assets	241,250	258,250	275,250
Liabilities and Equity			
Current liabilities			
Accounts payable	105,000	110,000	115,000
Other expenses	55,000	60,000	65,000
Total current liabilities	160,000	170,000	180,000
Long term debt	550,000	440,000	330,000
Total liabilities	710,000	610,000	510,000

Chapter 6

Entrepreneurial Growth

Role of the Government in Entrepreneurial Growth

In the previous chapter, the factors influencing entrepreneurship were discussed. Also we learnt that such factors could have positive or negative influences on entrepreneurial spirit. In this chapter, let us understand the role played by the Government and other agencies in promoting entrepreneurship.

Rabindra Kunango in his book *'Entrepreneurship Innovation – Models for Development'* presents 10 conceptual models for entrepreneurship in various cultural contexts.

1. **Laissez-Faire :** The essence of this model is that *government interference and regulation hinders economic development*, the lack of which allows the entrepreneurs to become competitive and create wealth therefrom. *Example of model – **Cayman Islands.***
2. **Positive Environment :** The philosophy behind this model is that government should play a role in encouraging the small business sector, but this role should be limited to providing a positive environment like adequate infrastructure, free trade agreements, low level of taxation, etc. *Example of model–**Austria.***
3. **Strategic Interventionist :** This policy assumes that the State should have a strategy of promoting small business through intervention by ensuring training, research, finance, marketing, know-how and support. *Example of model–**Namibia***
4. **Subsidized Interest Rate:** Providing subsidized interest rates to certain industries below market rate help a few selected entrepreneurs whose enterprises subsequently develop into mega-conglomerates. *Example –* ***South Korea,*** where only a few industries – *Heavy industries* and *chemicals* are supported and the economy is dominated by a small number of diversified mega-conglomerates.
5. **Egalitarian :** All borrowings by the entrepreneurs are at relatively high rates. High interest rates are an incentive to be thrifty. Thus, encouraging saving than borrowing. *Example of the model– **Taiwan.***
6. **Trade Facilitation:** It is an unique mercantilist model, focused on the internationalisation of small and medium-sized enterprise. Apart from

tangible aid, the government facilitates *paper-work* procedure and reduces bureaucratic constraints *Example of model*—***Kenya.***

7. **Yugopluralist:** The policy changes were initiated at the local level. It could be a weak central government and due to cultural heterogeneity. There is autonomy due to decentralisation of the federal system. Culture is an important determinant of differences in the economic policy, which in turn contributed to regional disparity. *Example of the model*—***Yugoslavia.***

8. **Top-down reform:** The reforms come from the top levels of government, down to people. Several governments declared a change from centrally planned economy to the one driven by market forces. *Example of model* —***German Democratic Republic.***

9. **Open-door reform:** The policy adopted is that of open door with major reforms of a completely planned economy. It results in strong incentives to produce. Example is ***China,*** where farmers are kept completely outside the planned sector of the economy in order to promote entrepreneurship among them.

10. **Doi-Moi:** The word literally means 'renovation' or 'new thinking'. This is to help small enterprise operate within a socialist system. *Example of model*—***Vietnam.***

11. **Indian model :** Indian model is a combination of *strategic internationalist* and *subsidized interest rate*. It has probably high entrepreneurial talents in the world.

The above models show that each country has chosen a particular model which it regards as the most appropriate to help its small business sector.

Role of governmental and non-governmental agencies in promoting entrepreneurship in India

In India, three types of roles are played by government and non-governmental agencies. They are :

1. Promotional
2. Supportive; and
3. Regulatory

Figure 6.1 - Different Roles Played by Various Agencies

1. Promotional Role

In this role, both government and non-governmental agencies try to promote entrepreneurship by awareness building, encouragement, motivation, guidance, etc. The entrepreneurial spirit is encouraged by publicity and promotional efforts. Just as we try to sell a product, the agencies try through their efforts to motivate people to establish enterprises and become entrepreneurs. Here, the emphasis is on awareness. The various Entrepreneurial Development Programmes (EDPs) fall in this category. The assumption here is that entrepreneurship and entrepreneurs can be developed. It is not true that all the entrepreneurs are born and entrepreneurship is attained only by birth. The objective of the role of these agencies is to attract people to start on their own. Identification of potential entrepreneurs through research and scientific methods has to be done. These agencies can play a major role in promotion of new entrepreneurs which results in the entrepreneurial growth.

The efforts for promoting entrepreneurship are of three types:

1. *Awareness creation programme* – To create an awareness of entrepreneurial opportunities.
2. *Programme on creation of new entrepreneurs* – To train and develop new entrepreneurs; and
3. *Programme for current entrepreneurs* – To develop their management capabilities.

These programmes are *target-group* oriented (*e.g.*, for women, rural, technical entrepreneurs). Also *Product – process* specific (*e.g.*, food product, jute product etc); and *Location – specific* (*e.g.*, Tamilnadu, Andhra Pradesh, etc.)

2. Supportive role

Various agencies lend support in establishing and managing enterpri There is obviously an overlap between promotional, supportive a developmental roles. The supportive role helps in promotion, maintenance development of entrepreneurship. For example, take the case of industrial esta The tax concessions of various States motivate individuals to beco entrepreneurs. Also, some of the institutions such as State Industries Promot Council of Tamilnadu (SIPCOT), play multiple roles. They lend financial supp in the form of loans at concessional rate of interest, offer Sales tax and Inco Tax holiday etc. Thus, they motivate the individuals to start their enterpri These institutions help the entrepreneurs in modernisation, diversificati growth, additional financing, quality testing, providing information and market These services are provided to new as well as existing entrepreneurs by vari Institutions such as, SIDBI, SIET, NABARD, KVIC, etc.

Institutions providing promotional and, supportive role are established different levels. They have 3 or 4-tier machinery to serve entrepreneurs. They at District, Village, State and at National levels.

District level Institutions are DIC, KVIC.

State level Institutions are SFC, TCO, SSIDC, SIDC, KVIB, EDI, SISI, SIDBI.

National level Institutions are ICICI, IIC, EDII, KVIC, NABARD, IDBI, IFC.

3. Regulatory role

After the promotional and supportive roles, the need for regulation a control emerges. Through various laws, a government tries to regulate and contr entrepreneurs. The regulatory institutions give clearance for construction factories, supply of power, tax reliefs, concessions, etc. For example, providi land, factory shed, water and power, providing Reservations for small and ti sectors, under Factories Act, Shops and Establishments Act, and Sick Industri Corporation Act, etc. All regulatory institutions have their policies a programmes to provide necessary help and support to entrepreneurs. Howeve there is a lot to be desired in the support provided by these organisations. F example, getting clearance for construction of a factory shed or seeking permissio for starting a particular industry or even for getting power connection considera delay occurs. Delay is rather the rule than the exception in getting anything do from any of these institutions.

Proper and simple rules and regulations will act as a positive factor in t promotion of entrepreneurship. Otherwise, they may dampen the spirit entrepreneurship. So, the regulations and policies have to be carefully framed w the clear objective of promotion of entrepreneurship as the foremost factor in min

To sum up, we can say that both the government and non-governmen agenceis perform the same roles. However, in infrastructural developme financial assistance, and regulatory roles, the involvement of the governme agencies is large.

ROLE OF VARIOUS AGENCIES IN PROMOTING ENTREPRENEURSHIP

There are a number of agencies working for promoting entrepreneurship, offering general and specific services. The agencies are governmental as well as non-governmental (NGOs). These supportive institutions can be classified into two main categories:

Supportive Institutions

(A) *Promotion & Development, General Services* e.g. SIPCOT, DIC, SIDO

(B) *Financial support* e.g. IDBI, ICICI, SIDBI

Classification of Supportive Institutions

A) Institutions concentrating on the promotion and development of entrepreneurship which offer general services like EDPs such as SIPCOT, DIC and SIDO; and

B) Institutions which play a supportive role by financing the entrepreneurs like SIDBI, IDBI and ICICI.

Let us study in detail about a few institutions in each category.

A. PROMOTIONAL AND DEVELOPMENTAL INSTITUTIONS

1. Entrepreneurship Development Programmes (EDPs)

The EDPs are offered by both the Government organisations as well as non-government organisations (NGOs). Initially, the Small Industries Extension and Training Institute (SIET), Hyderabad selected 52 young persons in 1971 from business and industrial community and offered a three-month training programme and motivated the participants to be entrepreneurs. This was the humble beginning of a massive programme of entrepreneurial development. At present, there are about 686 all-India and state level financial institutions and public sector banks – Indian Bank, Canara Bank, State Bank of India etc. conducting EDPs. Joining them are the educational institutions, conducting short and the long term entrepreneurial development programmes. Even private companies have started offering entrepreneurial development programmes. In IT industry, many of the training institutes offer specific programmes after which a trainee can start his/her own enterprise. An advertisement given in a newspaper describes how private companies attract the entrepreneurs.

GOLDEN
BUSINESS
OPPORTUNITY
IN
VB/WEB BASED
PROJECTS

For Software Professionals to earn additional income during their spare time by working at their place of convenience.

Trilux made revolution with resounding success in
ENTREPRENEUR
DEVELOPMENT
By empanelling large number of Software Professionals to develop Computer based Tutorials in Phase I and to develop and host Web based Tutorials in Phase II.
Persons
- Having good exposure in concerned subject/associated with subject experts
- Having good exposure in VB/Web based Projects

If Yes, please contact
Trilux Technologies (India) Ltd
Corporate Office 18, Mount Road
Chennai 600 015
Ph: 230 18 40, 43,46,47,48

"right place of IT zealots"

Figure 6.2 A typical newspaper advertisement of an IT company aimed attracting Entrepreneurs

Entrepreneurial Training

Entrepreneurial training is provided through Entrepreneurial Developm Programmes. The main aim and objectives of EDPs are –

a) To attract people to entrepreneurial development programmes throu effective promotion.
b) To make them aware of the various available business opportunities.
c) To motivate and strengthen entrepreneurial quality.
d) To develop the course content and the curriculum of the programme, keep in view the characteristics and the factors influencing entrepreneur growth.

e) To develop management related skills like problem solving, decision making, communication, opportunity identification, interpersonal, team building, etc.

f) To make participants aware of the various laws, procedures, etc., relating to the entrepreneurship.

g) To develop passion and interest in entrepreneurship.

h) To conduct research and study on the effectiveness of the various programmes, schemes, market potential of various business opportunities, etc.

Course Content and Curriculum of Entrepreneurial Training Programmes (EDPs) : On the basis of the above mentioned aims and objectives, the course content and curriculum of EDPs could consist of the following:

i) *General introduction:* Need for entrepreneurship and its importance in economic growth of our country. Factors affecting the entrepreneurship. Advantages and benefits of own enterprises. Such details could be furnished.

ii) *Motivation training:* The focus should be to develop motivation through training and education. Factors that motivate people to become entrepreneurs vary from individual to individual. Some may be motivated by economic factor like profit and, some by self esteem, etc.

In order to understand what motivates people to become entrepreneurs, let us study briefly the *Maslow's Need Hierarchy theory.*

Maslow's Need Hierarchy Theory

Dr. Abraham Maslow a psychologist, formulated a widely accepted theory of human needs. His theory is based on the human needs. He classified human needs into 5 different categories in order of priority from *lower* to *higher* needs. He called them the *hierarchy of needs*. The reason why they are called so because certain needs have to be fulfilled before human beings seek the next higher level need. If one is hungry, he will first demand food, before seeking prestige or status. Thus, when the lower needs are satisfied, a new and higher need emerges and the process continues. The diagram given below exhibits the Model–

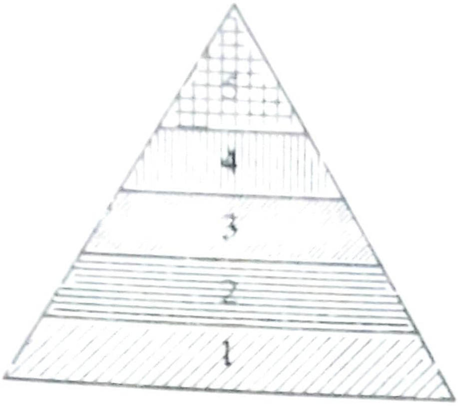

Figure 6.3 - Maslow's Hierarchy of Needs

1. *Physiological needs* like food, clothing, shelter, air, water and othe necessities of life
2. *Safety and security needs* such as economic security and protection fro physical dangers.
3. *Social needs* refer to a sense of belonging, recognition, acceptanc interaction, etc
4. *Esteem needs* which are in terms of self esteem, self respect, self confidenc achievement, competence, knowledge, independence, reputation, etc.
5. *Self-actualisation need* is the final stage which aims at self fulfillment. Onc this need is satisfied, human needs cease to be a motivating factor.

For entrepreneurs, mainly the *social, esteem* and *self actualisation* need motivate them to work more and more.

The different types of motivating factors could be (a) Ambition, Compellin or Facilitating. (b) Economic or non-economic. (c) Intrinsic or Extrinsic. Some o the factors which prompt the aspirants to become entrepreneurs are enterprisin attitude, training and education, previous experience which are *intrinsic* factor and *extrinsic* factors like shortages, government assistance, taking over of th running units, made available at a cheap price, etc.

iii) *Management Skills*: The third aspect the course content of a entrepreneura development programme should focus is on developing managerial skil A small-time entrepreneur cannot afford to employ senior executives, so h has to develop adequate managerial skills such as problem solving communication, marketing, financial, interpersonal, technical, decisio making, etc., himself. He could attain such skills with the help of past cas studies, guest lectures, factory visits, role play, etc.

iv) *Project feasibility studies*: Participants should be trained in preparation o project feasibility reports in terms of marketing, financial, technologica environmental issues, forecasting business plans. They are dealt with detail in chapters 13 and 14.

v) *Awareness about the support systems and procedure*: The participants should be aware of the role played by various supportive agencies. They must be familiar with procedural requirements such as application and evaluation norms.

The ultimate objective of any entrepreneurial development programme is to prepare the trainees to start their own enterprises after the completion of the training programme. The focus of EDPs is on education and training.

Phases of EDPs

An Entrepreneurship Development Programme involves 3 phases. They are :

Initial phase (Pre-training phase) : Through publicity and training programmes, an awareness is created about the entrepreneurial opportunities.

Development phase (Training phase) : Through training programmes, motivation and managerial skills are developed.

Support phase (Post training phase) : Counselling, encouragement, infrastructural, financial support are provided for establishing and running an enterprise.

An EDP can be promoted in different phases. It is not necessary that all EDPs have to go through all the phases. Some EDPs can be developed to take care of only one phase also. First, the *pre-training phase,* where the programme is to be advertised, trainees have to be selected and arrangement of venue, infrastructure and faculty, framing of the syllabus, etc., is to be organised. In the second phase, training is given which is the *training phase*. After the programme is over, feedback should be collected and it is the *post-training phase or follow-up phase.*

Performance of EDPs or
Performance of Entrepreneurial Development/Training Institutes

There are hundreds of EDPs conducted by various organisations all over our country. Apart from Government organisations, Rotary clubs, banks, educational institutions like IIMs and engineering colleges conduct short term courses. There are Centres for Entrepreneurship Development Institutes in Karnataka, Lucknow, Madurai, Bhubaneshwar and Bhopal which conduct Entrepreneurship Development programmes. A Study by Entrepreneurship Development Institute of India (EDII) at Ahmedabad and Goa has revealed that one out of every four trainees started their own enterprise after the completion of the training programme. The success ratio varies from institute to institute and from region to region.

Training to Existing Entrepreneurs

The EDPs should not only focus on motivating individuals to start own enterprises but also offer training to existing entrepreneurs for enhancing their

Reasons for Poor Performance of Industrial Estates

We can see that some industrial estates are quite successful while some have failed to attract entrepreneurs. In Madras, Thirumazhisi Industrial Estate, near Poonamalle is not as successful as Ambattur and Guindy Industrial Estates.

In SIPCOT Industrial Estate at Ranipet, which is 25 years old, 70% of the industries have been progressively closed over the past 3 years due to sickness. A hostile industrial climate is prevailing. The reasons cited are:

1. *Higher sales tax* as compared to other States. The buyers prefer buying products from other States like Pondicherry.
2. *Frequent interruptions in power supply* resulting in loss of production. To avoid production loss, several industries had to incur additional expenditure on power for generating their own electricity. According to the SIPCOT Industries Association, Ranipet, (SIAR) there were 50-100 power interruptions during a 3-month period. This has added to the cost of production, making their products less competitive.
3. *Red-tapism, bureaucracy, corruption and harassment* by the local panchayats in the matter of renewal of licences and approvals of building plans for expansion of industries have only worsened the performance of already ailing industrial units.
4. *High maintenance cost.* To overcome this problem, SIPCOT Industries Association, Ranipet has suggested joint maintenance of the industrial estate. The maintenance cost will be much less if a maintenance committee is formed to run an industrial estate.

The above cited reasons are typical problems faced by several industrial estates.

3. Khadi and Village Industries Commission (KVIC)

KVIC was established in 1957 by an Act of the Parliament and is engaged in promoting khadi and village industries with a view to create employment opportunities in the rural areas, thereby strengthening the rural economy. It is an autonomous body which took over from its predecessor, the *All India Khadi and Village Industries Board*, set up in 1953. KVIC supports Tiny Sector with investment in plant and machinery upto Rs. 5 lakhs. *Gandhian philosophy and thought* are the backbone of KVIC's policy.

The tiny sector in India accounts for 96% of SSI units, 72% of employment generation, and 48% of credit flow.

The Objectives of the KVIC

1. Identification of beneficiary
2. Providing financial support to eligible individuals and institutions.
3. Providing training, ensuring quality control.

4. Conducting marketing and undertaking product research and development.
5. Supply of raw materials at reasonable rates
6. Promoting KVIC products through publicity and exhibition.
7. Providing consultancy for the revival of sick units

Package Assistance consisting of finance, training, marketing and other support assistance is also offered to 25 industries. Some special schemes like transport subsidy industrial estate, refinance are also available. To effectively offer these services, KVIC has a unit at National, State, and District/block levels in the country.

The beneficiaries of KVIC are traditional artisans, rural unemployed youth, co-operative societies/registered institutions. Individuals or a group of 4 or 5 individuals who can join under integrated cluster scheme and start an enterprise.

Thus, the objective of KVIC is to promote, plan, organise, assist and implement programmes of development for Khadi and 25 village industries that KVIC has identified. KVIC has 29 State Khadi and Village Boards, over 1,172 registered institutions and more than 29,813 industrial co-operatives spread over 2.10 lakh villages with 15,000 sales outlets.

The 25 village industries that are listed by KVIC are as follows:

1. Khadi – (i) Cotton (b) Woollen (c) silk; and (d) Muslin
2. Processing of cereals and pulses like papad and masalas
3. Ghani oil industry
4. Village leather industry
5. Cottage match industry
6. Gur and Khandsari
7. Palmgur
8. Non-edible oils and soap industry
9. Hand-made paper industry
10. Bee-keeping
11. Village pottery
12. Fibre
13. Carpentry and blacksmithy
14. Lime manufacturing
15. Collection of forest plants, fruits for medicinal purposes
16. Shellac

17. Gum – Resin
18. Katha
19. Cane and Bamboo
20. Fruits and vegetables processing and preservation
21. Household aluminium utensils
22. Manure and methane
23. New village industries – Textile garments, hosiery
24. Polymer and chemical base – Detergents, Mehendi, Bindi, shampoo, hair oil, candle; and
25. Mineral based – slate and slate pencil making.

To become an entrepreneur, a prescribed application form has to be submitted to the respective authorities. KVIC Board at district or zonal level will examine the proposal, study the feasibility and sanction financial assistance.

To guide the first generation entrepreneurs the KVIC has launched a "Rural Industry Consultancy Service". The consultancy service will provide "hand holding services and support" for new and first generation entrepreneurs. It will help the prospective entrepreneur in a variety of ways, including helping them prepare project reports which would facilitate getting loan from banks. KVIC turnover Rs. 10,000 crores during 2002-03. It has grown by 14% and generated 1 .8 million employment opportunities. In the 10th plan period the employment has to go up to 2.6 million.

Suggestions : The scope of promotional measures has to be extended to all the rural industries and not limited to specified village industries and crafts. The protective and promotional measures are to focus on growth rather than on survival of rural industries.

4. The Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC).

It was set up by the Government of Pondicherry in 1974 with the twin objective of promoting the Industrial Development of Pondicherry and providing financial assistance to entrepreneurs. It is a limited company with an authorised share capital of Rs. 40 crores and has earned a profit of Rs. 350 lakhs (Tentative) for the year 1999-2000. PIPDIC provides various facilities such as Term loans Equity participants / Underwriting of Capital issues, Hire Purchase and Lease Financing, IT and Electronic Parks/Growth Centre/Industrial Estates.

The following are the Objectives of PIPDIC

- Industrial Finance
- Equity participation
- Development of Industrial Estates
- Aiding, counselling, protecting and promoting the interests of Industries in Pondicherry.

4. Selected machinery suppliers' clients list with their detailed postal addre or copy of the letter for having registered as an approved supplier w financial institutions.
5. Prevailing market price of the end products obtained from the existin manufacturers / dealers or printed price list for the products.
6. Detailed manufacturing process in respect of the products to b manufactured.
7. Statistics regarding demand and supply position of the products wi necessary supported evidence along with tie-up letters.
8. Power feasibility certificate in the case of power intensive units.

5. The National Institute for Entrepreneurship and Small Busines Development (NIESBUD)

The institute was established in 1983 at Delhi as an apex body for coordinatin and overseeing the activities of various institutions and agencies engaged and entrepreneurship development, particularly in the area of small industry an small business. The institute acts as a secretariat of the National Entrepreneursh Development Board (NEDB) and processes the recommendations made by the Board. The policy direction and guidance to the institute are provided by its governing council whose chairman and vice-chairman are the Union Industries Minister and Union State Minister of Industries respectively. The role of NIESBUD is that of a catalyst, as it helps in developing the effectiveness and the efficienc of all the other organisations which are directly or indirectly engaged in promotion of entrepreneurship.

Functions of NIESBUD

The activities and functions of the institute include:

(i) To organize and conduct training programmes and evolve training methodology and prescribe a model syllabi, develop training manuals and tools.

(ii) To hold examinations and tests and confer certificates and diplomas on trainers as well as trainees.

(iii) To provide functional forums by conducting national level conferences, seminars, workshops to interact, exchange experiences and promote entrepreneurship.

(iv) To provide information by publication of literature on entrepreneurship development.

(v) To assist in setting up of regional and state level training institutions.

(vi) To evolve standard processes of selection, training, support and sustenance to potential entrepreneurs.

(vii) To support and help institutes involved in entrepreneurship development and to improve their efficiency.

The programmes organised by this institute are funded by the government. The objectives of its training programmes are to stimulate, support and sustain entrepreneurship in areas where the demand for programmes is high and also in areas where there are no organisations conducting such programmes.

The institute has organised programmes for various target groups including entrepreneurs, officials from support and service agencies of government, non-government and voluntary organisations. The programmes of the institute consist of (i) Trainers' Training programmes, (ii) Promoter's orientation programmes, (iii) Small business promoter's programmes; and (iv) Entrepreneurship orientation programmes for heads of departments and senior executives. Those who have been benefitted by NIESBUD training programmes are professors, researchers from academic institutions like IIT, engineering colleges, Junior officers from commercial banks, and officers from Technical Consultancy Organisations and Small Industries Development Organisation.

The programmes initiated and sponsored by the institute are constantly evaluated and revised to suit the changing needs in the areas of entrepreneurship and small business development. The institute is engaged in creating a climate conducive to the emergence of entrepreneurship and in developing favourable attitude amongst the general public in support of those who opt for entrepreneurial career.

6. Small Industries Service Institutions (SISI)

SISIs were 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 set up all over the country.

Functions

(i) To serve as interface between Central and State Governments

(ii) To render technical support services

(iii) To conduct Entrepreneurship Development Programmes

(iv) To initiate promotional programmes

(v) To assist in preparing Project profiles, Training, Trade and market information, Economic consultancy, State industrial potential survey and modernisation studies.

7. Small Industries Development Corporation (SIDCs)

They were set up in various States under the Companies Act to cater to the primary developmental needs of the small, tiny and village industries.

Functions

(i) To procure and distribute scarce raw materials

(ii) To supply machinery on hire purchase system

(iii) To provide assistance in marketing of the products of SSI

(iv) To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance

(v) To extend seed capital assistance on behalf of the State Government concerned

(vi) To provide management assistance to production units.

8. Technical Consultancy Organisations (TCOs)

A network of TCOs was established in collaboration and as a subsidiary of the Industrial Development Bank of India (IDBI). It was realised that providing only financial support to entrepreneurs is not sufficient. Entrepreneurs require other support as well to be successful. They may require aasistance in identification of business for new enterprises and consultancy for the existing enterprises. At present there are 17 TCOs operating in various states – in A..P, Maharashtra, West Bengal, Rajasthan, U.P., Orissa, M.P., J&K,, Haryana, Delhi, Gujarat, Bihar and Tamilnadu.

The functions of TCOs

(i) To prepare project profiles and feasibility profiles

(ii) To undertake survery on potential of industries

(iii) To identify potential entrepreneurs and provide them with technical and management assistance

(iv) To undertake market research and survey for specific products

(v) To undertake export consultancy for export oriented projects

(vi) To conduct entrepreneurship development programmes

(vii) To offer merchant banking services

(viii) To offer consultancy for modernisation and rehabilitation of industrial units.

(ix) To undertake Turn-key assignments.

9. Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT)

ITCOT was incorporated in 1979 as a joint venture of ICICI, IDBI, IFCI, SIPCOT, TIIC and SIDO. Leading Financial Institutions, State Development Corporations and Commercial Banks came together to provide consultancy services to industry and service sectors.

The services offered can be classified into :

(i) Core consultancy services

(ii) Energy consultancy services

(iii) IT consultancy

(iv) Training programmes.

It offers a wide range of consultancy services such as project identification, project profiles, project reports, market surveys, techno-economic feasibility studies, detailed project reports, project management, escort services, project appraisals, asset valuation, stock audit, sick unit rehabilitation, restructuring, skill upgradation programmes, industry specific studies, energy audits, environment impact assessment, computer training programmes and so on.

The organisation undertakes turnkey projects on wind mills, sugar and paper mills, diesel captive power plants and solar energy projects.

They organise seminars, training programmes and 'industry meets' on current topics.

The services are offered to corporate sector, small and medium enterprises, individual entrepreneurs, public sector undertakings, banks, financial institutions, cooperatives and governments.

They undertake assignments in industries such as agro-based, food processing, bio-technology, chemicals and fertilisers, plastics and packing, drugs and pharmaceuticals, infrastructure, conventional and renewable energy, environment, hotel and tourism, electronics, software and information technology and textiles.

It has a talented and experienced pool of professionals in agriculture, textiles, chemicals, engineering, software, energy, management and other disciplines.

ITCOT has undertaken surveys at the instance of state/central government. It has also helped entrepreneurs in setting up ancillary units for the automobile and chemical industries. It has conducted feasibility studies and prepared project reports, EDPs were also conducted by it. ITCOT adopted Palani in Madurai district and Rasipuram in Salem district under IDBI's block adoption scheme. It wants to broad base the operations by extending marketing assistance for products of small scale industries.

10. State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)

SIPCOT was set up in 1971 as a Public Limited Company, wholly owned by the Government of Tamilnadu for the medium and major industries. The office is located in Egmore, Chennai. It works in liasion with TIIC and extends term loans under IDBI refinance scheme.

Objectives

(a) To establish, develop, maintain and manage industrial complex, parks and growth centres at various places across the State of Tamilnadu.

(b) To channelise incentives for industries set up in the State.

(c) To provide escort services to medium and large scale industries

(d) To provide entrepreneurial development programmes for the weaker sections to generate employment opportunities.

(e) To help in project assistance and clearance

(f) To provide single window statutory clearance

(g) To provide marketing assistance

Instead of just accelerating the pace of industrial growth in already developed and densely populated areas, SIPCOT has created industrial complexes, parks, growth centres in 17 strategic places. They are located in Bargur, Cheyyar, Cuddalore, Gangaikondan, Gummidipoondi, Hosur, Irungattukottai, Manamadurai, Nemili, Nilakkottai, Oragadam, Perundurai, Puddukkoti, Ranipet, Siruseri, Sriperumpedur and Tuticorin.

It provides financial assistance for medium and major industries in the form of

(a) Term loan under IDBI Refinance Scheme

(b) IDBI's Seed Capital Scheme

(c) Underwriting the Capital issues

(d) Guarantee to loan from commercial banks

The term loans are disbursed under normal scheme, equipment refinance scheme, larger projects and lease finance. Loans are also extended under specific scheme for technology development and modernisation, assistance for marketing of SSI products, acquisition of ISO 9000 series, special scheme for tannery and textile industries.

Procedure for Term loan

1. The entrepreneurs, new and existing, have to register their enquiry for financial assistance along with preliminary details on the scheme.
2. The in-house Preliminary Clearance Committee decides on the processing of the scheme.
3. The entrepreneurs will be informed to submit their detailed application along with a process fee valued at 0.25% of the term loan. The clearance is given in two weeks. In case, if the term loan is not sanctioned or the application is withdrawn prior to sanction, 20% of the process fee is deducted and the balance is refunded. No refund of process fee is entertained after the sanction of the term loan.
4. The project is then appraised by site inspection – technical, managerial, commercial and financial appraisal of the project.
5. A report is presented to the Screening Committee consisting of experts from the concerned area of specialisation.

6. The recommendation of the Screening Committee is placed before the Board of SIPCOT.
7. The decision of the Board is then communicated to the applicant.

The term loans under SIDBI refinance is at the interest of 15% while IDBI and SIPCOT are at 15.5%

Subsidies and Incentives of SIPCOT

As a nodal agency of the Government of Tamilnadu, SIPCOT offers various incentives, to medium and major industries – for new units, and also for expansion and diversification projects. The subsidies are common for small, medium and large industries.

A capital subsidy of 20%, subject to a ceiling of Rs. 20 lakhs is available to industries set up in 71 most backward blocks and SIPCOT industrial complex at Tuticorin, Manamadurai and Pudukkottai. Same subsidies are available as special subsidy for *electronic, floriculture* and *leather* industries.

For backward region, the capital subsidy is 15% to industries set up in 216 backward blocks, subject to a ceiling of Rs. 15 lakhs. These are also available in industrial complex developed by SIPCOT, SIDCO and other bodies.

A special subsidy of 10% with a ceiling of Rs. 15 lakhs is available to medium and major selected industries set up anywhere in the State of Tamilnadu, such as automobile spare parts, drugs and pharmaceuticals, solar energy equipment and other non-conventional energy devices, export oriented gold jewellery and diamond processing units, pollution control equipment, jute industry in 6 taluks, sports goods and accessories, food processing, cost effective building materials like aluminium or PVC doors and windows, window frame, etc. For small industries, the subsidy is 20% with a ceiling of Rs. 15 lakhs.

Special incentives for mega projects are introduced. For an industry with a fixed capital investment of Rs. 200 crores, subsidy is Rs. 100 lakhs. For industries with a fixed capital investment of Rs. 100 – 200 cores, the subsidy is Rs. 50 lakhs; and for Rs. 50 – 100 crores, subsidy is Rs. 25 lakhs. These are not available for units set up within 50 kms radius of Chennai city, 15 kms radius of Madurai, Coimbatore, Salem, Trichy and Tirunelveli. However, industries set up in the Industrial estates developed by SIPCOT, SIDCO, ELCOT, TIDCO, DIC are eligible for the subsidy.

For new industrial units with more than 30% of the total workers as women, an additional subsidy of 5% subject to a ceiling of Rs. 5 lakhs is provided, except in food processing, garments, leather, hosiery and match industries.

Additional subsidy of 15% with Rs. 5 lakhs ceiling is granted for new generators except in cement, sugar, textiles, mining, flour mills, hotels, edible oil, rice mills, distilleries, brewery and power intensive units. These industries are not eligible for state capital and mega subsidy as well.

Any project for expansion should envisage a minimum of 15 % in the value of production to become eligible for the subsidies.

Applications for availing incentives should be submitted within one year from the date of commencement of commercial production to SIPCOT if the project is assisted by SIPCOT and TIIC, if assisted by TIIC. If the project is assisted both by SIPCOT and TIIC, applications for availing incentives should be submitted either to SIPCOT or TIIC. For projects not assisted by SIPCOT or TIIC, applications for subsidy should be submitted to DIC. For medium and major industries, subsidy will be routed through SIPCOT and for sick textile mills through the Director of Handlooms and Textiles.

An investigation fee of Rs. 2,000 non-refundable and a processing fee of Rs. 10,000 should be remitted by way of Demand Draft to SIPCOT.

Other Assistance offered by SIPCOT

(1) SIPCOT has compiled a *Data bank*, containing information on various aspects of industries. It guides the entrepreneurs regarding various procedures to be followed, forms to be filled up and compliance with various regulations for setting up industries.

(2) It also helps entrepreneurs in assessing the merits of alternative locations for the proposed projects with reference to the source of raw materials, market potential and facilities available in a particular area.

(3) SIPCOT takes initiative to contact entrepreneurs holding Indent, Letters and Licenses in the State and help them overcome their implementation problems.

(4) It guides the entrepreneurs to decide on the economic size of the unit, foreign collaboration, supply of machinery, technical know-how, etc.

(5) *The Business Development Department* guides entrepreneurs in applying for licence and registration with the Central Government, approval of collaboration, import licence allocation of scarce raw materials and clearance from local authorities and financial institutions.

(6) It also helps entrepreneurs to obtain supply of power.

11. District Industries Centre (DIC)

As the name suggests, these centers are located at the district level. At present, there are 422 DICs operating, in 431 districts of our country. The DIC scheme was started in 1978 with the intention that under a single roof, an entrepreneur should get details of benefits and guidance about all matters relating to setting up and running an industrial unit. They act as a co-ordinator and 'multiple function' agency. They are the implementing arm of the various Central and State Government schemes and programmes offered from time to time.

The organisational structure of DICs consists of a general manager in the rank of joint director of industries. Under him are, 4 functional managers and 3 project managers, to provide technical service in the areas relevant to the needs of district concerned. The success of DICs largely depends on the general manager and his team.

The expenses are shared equally, between the state and central governments. The main objective of the DIC is to develop and promote cottage, small, tiny sectors in the country and to generate employment opportunities, especially among the rural and backward areas of the country.

Functions of District Industries Centre

(i) Identification of entrepreneurs by conducting motivational campaigns throughout the district, especially in Panchayat union headquarters.

(ii) Selection of projects by conducting survey on the potential of industries, keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. Preparation of techno-economic surveys of the identified products. The potential entrepreneurs are offered suitable projects.

(iii) Provisional and permanent Registration under SSI and issue of the certificate.

(iv) Recommendation of the loan application for land and building acquisition to State level institutions and nationalised banks.

(v) To guide an entrepreneur in selection of the appropriate machinery, equipment and raw materials. Issue certificates for the import and export of machinery and raw materials. Under Rural Industries Project (RIP), sanction margin money for the purchase of plant and machinery and recommend applications to state and central institutions and nationalised banks.

(vi) Pursue with the electricity board for power connection. Scrutinising and recommending to SIDCO, Power Tariff Concession in the form of power subsidy at the rate of 30% for the first year, 20% during second year and 10% for the third year.

(vii) Recommendation of Interest free sales tax loan at 8% of the total fixed assets to SIDCO.

(viii) Sponsoring applications for subsidy under Industries Rural Development Project, (IRDA) at $33\frac{1}{3}$ % of the capital cost of the project, subject to a maximum of Rs. 3,000 per unit.

(ix) Disburse the interest subsidy for engineers for setting up industries in the rural areas.

(x) To assist entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.

8. *Exports:* NSIC is a recognised export house and so the units can export through the corporation and enjoy export benefits. The marketing and export promotion costs are absorbed by the corporation. It offers raw mateials, helps in development of samples and procuremnent of orders, takes care of pre and post shipment credit, assits in claiming export incentives, export documentiation, exhibitions. It also arranges buyers and sellers *meet.*

9. *Setting up Industrial Estates Abroad:* NSIC has set up industrial estates abroad. It has set up industrial estates in Africa, Nepal, Vietnam. It has established vocational training in Mongolia.

16. Small Industries Development Organisation (SIDO)

SIDO is a subordinate office of the Department of SSI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of SSI. The person who is holding the post of Development Commissioner is the head of 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 SSI, 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 created for the specific functions. The SIDO functions through 27 offices, 31 Small Industries Service Institutes (SISIs), 37 Extension Centres, 3 product-cum-process Development Centres, and 4 Production Centres. All small-scale industries except those falling in specialised boards and agencies like KVIC, Coir Board, Central Silk Board, etc., fall under the purview of the SIDO.

Functions of Small Industries Development Organisations (SIDO)

Co-ordination

(i) To evolve a national policy for the development of small scale industries

(ii) To Co-ordinate the policies and programmes of various State Governments

(iii) To maintain a proper liasion with the related Central Ministries, Planning Commission, State Governments, Financial Institutions etc; and

(iv) To co-oordinate the programme for the development of industrial estates.

Industrial Development

(i) To reserve items for production by small- scale industries

(ii) To collect data on consumer items imported and then encourage the setting of industrial units to produce these items by giving coordinated assistance.

(iii) To render required support for the development of ancillary units; and paper and paper products registering a growth of 44.2%, 37.5%, 10.6%, 2.5%, 15.7%, 50.2% and 57.5 % respectively. Infrastructure comprising electricity generation, telecommunications, roads/port/bridges accounted for the largest share (26.4%) in such sanctions. The other institutions that had substantial share in AFIs sanctions were services (21.5%), chemicals and chemical products (8%), refineries and oil exploration (6.9%) and basic metals and electricals and electronic equipment (4.4%) each.

Maharashtra accounted for the largest share in total sanctions (27.7%), followed by Gujarat (12.2%), Delhi (9.5%), Tamilnadu (6%), Karnataka (5.3%), Andhra Pradesh (5%), West Bengal (4.5%), Haryana (4.3%) and Uttar Pradesh (3.5%).

1. **Indian Investment Centre (IIC)**

IIC has set up an entrepreneurial guidance bureau at Delhi and Calcutta. They guide entrepreneurs in identifying investment opportunities, assisting them in selecting locations for the establishment, preparing project profiles, in processing their applications with the State government and the financial institutes concerned, for securing financial assistance. They furnish information pertaining to the products that offer scope for manufacture, statistical details relating to demand, capacity, production, sources of supply and availability of raw materials, types of equipment required, investment involved, details of financial institutions that could be approached for assistance, etc. Information on procedures pertaining to obtaining letters of intent, import of capital equipment, export of finished products is also furnished. They establish direct contact with engineering graduates, technically qualified personnel and small entrepreneurs in the country.

2. **Entrepreneurial Guidance Bureau (EGB)**

The Indian Investment Centre (IIC) has set up Entrepreneurial Guidance Bureau to guide entrepreneurs, in identification of investment opportunities, assist to select location for the projects, prepare project profiles, help to get financial assistance. ECB provides statistical information on demand, production capacity, sources of raw materials, types of equipment required, investment involved, sources of finance, etc. Information on the procedures pertaining to obtain letter of intent, imports of capital equipment, export of finished products is also provided. It helps entrepreneurs to obtain letter of intent, submit proposals, etc. It establishes direct contacts with engineering graduates, technically qualified personnel and small entrepreneurs to promote entrepreneurship.

3. **Tamilnadu Industrial Investment Corporation (TIIC)**

In Tamilnadu, the Madras Industries Investment Corporation was started as early as 1949 and it was the first State level Finance Corporation in whole of India. This was renamed as Tamilnadu Industrial Investment Corporation (TIIC). It has schemes to assist the technocrats, educated unemployed and self-employment and also the development of backward regions. It has 15 branch offices at

Chengalpattu, Coimbatore, Cuddalore, Dharmapuri, Erode, Chennai, Madurai, Manamadurai, Nagercoil, Puddukkottai, Salem, Thanjavur, Tiruchi, Tirunveli and Vellore and 4 Regional offices at Chennai, Madurai, Coimbatore and Trichy. It provides long-term loans for acquistion of land, building, plant and machinery to tiny, small and medium scale units.

Various Schemes offered by TIIC

1. *General Scheme* : Under the general scheme, term loan assistance is provided for small and medium scale industrial units to set up new industries and expansion / modernisation / diversification of the existing units.

2. *Nursing Home Scheme* : The Corporation provides assistance for construction of nursing homes and purchase of electro-medical equipment in all areas including metropolitan / Corporation areas with a minimum bed strength of 20. Non medical persons are also eligible for assistance under this scheme.

3. *Transport Operator Scheme* : The Corporation provides loans for purchase of transport vehicles *viz.*, delivery vans, lorries, trailers, tempos etc., to operate as *Commercial Goods Carriers* and for the purchase of autos, tourist taxis, pick-up vans and passenger buses (having route permits) to be operated as *Public Carriers* and for purchase of excavators.

4. *Generator Scheme* : Assistance is given for installation of power generating units for captive power consumption of the individual units.

5. *Hotel Scheme* : Financial assistance is considered for setting up of hotels/ motels / restaurants in order to promote tourism and also for expansion and renovation of the existing hotels.

6. *Single Window Scheme* : All eligible small scale units including tiny units, whose project outlay is within Rs. 200 lakhs would be eligible for both term loan and working capital assistance under the scheme.

7. *Ex-Servicemen Scheme (SEMFDX)* : A Special scheme is being operated in collaboration with SIDBI and Ex-Servicemen Board for ex-servicemen. The total cost of the project under the scheme shall not exceed Rs.15 lakhs. Ex-servicemen can also apply under National Equity Fund Scheme.

8. *Mahila Udhayam Nidhi Scheme* : Women entrepreneurs can avail assistance to set up new projects, if the project cost does not exceed Rs.10 lakhs.

9. *Refinance Scheme for Technology Development and Modernisation (RTDM)*: Existing profit making small scale units which go in for modernisation/ technology upgradation can avail assistance under this scheme. The project outlay shall not exceed Rs. 100 lakhs. Concessional rate of interest and lower promoter's contribution of 20% are the other features of the scheme.

10. *Technology Development Fund Scheme* : The Government of Tamilnadu has constituted a fund for Technological Development and Modernisation of small

(vii) Margin of security – 25% security margin on fixed assests.

(viii) Deferred payment guarantee – 25% of the amount as the margin of security

(ix) Personal Guarantee of the promoters/directors and guarantors.

(x) Collateral Security documents ranging from 25% to 50% of the loan based on risk – Mortgage in favour of the corporation.

(xi) The unit shall be registered as a small scale unit with DIC and shall have industrial licence, import licence, if necessary.

(xii) All small scale, medium scale units, proprietory, partnership, private and public companies are eligible for financial assistance.

(xiii) The project cost should not exceed Rs. 20 crores.

(xiv) The promoter's contribution shall be 33.3% of project cost as per SIDBI norms.

(xv) The debt-equity ratio shall be 3:1 upto Rs. 10 lakhs and 2:1 for loans above Rs. 10 lakhs.

4. Small Industries Development Bank of India (SIDBI)

The Government of India set up the SIDBI under a special Act of Parliament in 1989 as a wholly-owned subsidiary of the IDBI. The Head Office is in Lucknow. The authorised capital of SIDBI is Rs. 500 crores with a provision to increase it to Rs. 1,000 crores.

The management of SIDBI is controlled by its Board of Directors, consisting of representatives of central government, financial institutions and experts. The resources are raised through external borrowings from other countries and from domestic sources through bonds, deposits, and through Reserve Bank of India, etc.

The SIDBI's financial assistance to small scale industries is channelised through the existing delivery system, comprising State Financial Corporations, State Industries Development Corporations, Commercial Banks and Regional Rural Banks.

Objects and Functions of SIDBI

The functions and objects of SIDBI are achieved through various schemes. They can be classified into following categories:

(A) Schemes of Refinance Assistance

(B) Direct Assistance Scheme

(C) Bills financing

(D) Resources support to institutions

(E) Project financing

(F) Equity assistance

(G) Promotional and developmental services; and

(H) Credit Guarantee Fund scheme for small industries.

(A) Schemes of Refinance Assistance

1. General scheme for projects, their costs not exceeding Rs. 300 lakhs.
2. Scheme for Cottage, Village and Tiny industries. (a) *Composite Loan Scheme* – for equipment and working capital (b) Scheme for SC/ST and physically handicapped persons.
3. *Specific Schemes* – Diesel Generating sets, pollution control equipment, import substitution, computers, renewable energy.
4. *Scheme for Professionals*
5. *Equipment refinance scheme*
6. *Scheme for Small Road Transport Operators* (SRTOS) having more than 6 and less than 20 vehicles. Cost of chasis, body building, taxes, insurance, working capital. Second hand vehicles are not eligible for assistance – loan limit need based.
7. *Scheme for medical profession* (a) scheme for hospital and nursing home (b) medical equipment
8. *Scheme for marketing activities* (a) scheme for marketing organisation (KVIC) (b) Scheme for purchase of Mobile sales vans (KVIC)
9. *Scheme for Tourism* (a) tourism related industries (b)Hotels and restaurant
10. *Infrastructure development* (a) Industrial Estates (b) Development; and construction of roads
11. *Single window scheme*

(B) Direct Assistance Scheme

12. Scheme for specialised marketing agencies
13. Scheme for Ancillary, sub-contracting
14. Scheme for Development of Industrial areas for small scale sector

(C) Financing

15. Bills Rediscounting scheme for short term and normal term.
16. Direct Discounting scheme for equipment and components for normal and short terms.