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**Entrepreneur:** An enrepreneur can be regarded as a person who has the initiative skill and motivation to set up a business or enterprice of his own and who always look for high acheivements. He is the catalyst for social change and works for the common good. They looks for opportunities, identifies them and seizes them mainly for economic gains. An action oriented enrepreneur is a highly calculative individual who is always willing to to undertake risksinorder to achieve their goals.

**Meaning:**

* In terms of Self development (an athlete constantly practicing to improve his/her performance and stamina)
* In terms of creativity (a housewife using waste material for making a piece of art)
* In terms of self decision making (a man deciding not to marry and devoting the rest of his life in the service of god)
* In terms of risk taking (a teenage boy trying bunging jumping)

Hence anyone who exhibits the characteristics of self development, creativity, self decision making and risk taking can be rightly called as a person with entrepreneurial traits.

Any individual has three career options

* To work for someone else
* To be self employed in a profession
* To be an entrepreneur.

Of the three, entrepreneurship has also gained lot of popularity-the reasons are many:

* Provides numerous opportunities for self expression
* Realization of one’s passion for doing something new and different
* Monetary rewards are greater

Enjoys the power of decision making

***Definition of Entrepreneur:***

According to J.B. Say, “an entrepreneur is the economic agent who unites all means of production”.

In the words of Joseph.A.Schumpter, “A person who introduces innovative changes is an entrepreneur and he is an integral part of economic growth”.

In the view point of Peter Drucker, “Entrepreneur is one who always searches for change, responds to it and exploits is as an opportunity. Innovation is a specific tool of entrepreneurs, the means by which they exploit change as an opportunity for different business or service.”

Traits of an entrepreneur:

**1. Hard work:**

 A successful entrepreneur is one who is willing to work hard from the very beginning of his enterprise. An entrepreneur with his tenacity and hard work and pervasive perseverance can revive his business even from the verge of collapse.

**2. Achievement motivation:**

 The achievement motivation is the most important characteristic of an entrepreneur since all other characteristics start from his motivation. He must have a strong desire to achieve high goals in business. In fact, this achievement motivation helps him to surmount the obstacles, and devise plans for success.

**3. Highly optimistic:**

 Successful entrepreneur is always optimistic about his future and he is never disturbed by the present problems. He always accepts a favourable situation for his business and hence he is the midst of temporary hurdles.

**4. Keen foresight:**

 An entrepreneur must have keen foresight to predict the future business environment. He has the capacity to visualize the likely changes to take place in the market, customer’s attitude, technological developments, government policy and take timely actions accordingly.

**5. Planning and organizing:**

 An entrepreneur is a firm believer in planning on systematic work. Above all, he must have the ability to bring together all scattered resources required for starting up a new venture.

**6. Innovativeness:**

 When all is said and done, innovation becomes a different task. One should be always innovative to satisfy the varying demands of customers. For this purpose, the entrepreneur should initiate research and innovative activities to produce new goods and services. It is a never ending process.

**7. Risk Taking:**

 An entrepreneur is not a gambler and hence he should not assume high risk. However, he must love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.

**8. Prudence:**

 A successful entrepreneur must be prudent in all his dealings. He should have the ability to work out the details of the venture from all angles and take suitable measures to overcome the pitfalls.

**9. Secrecy Maintenance:**

 A successful entrepreneur must be capable of maintaining and guarding all his business secrets, leakages of business secrets to trade competitors will definitely lead to the down fall of his business. Hence, he should be very careful in selecting his sub-ordinates.

**10. Maintenance of public relations:**

 The extent of maintenance of public relation or human relations has a vital role to play on the success or failure of an entrepreneur. A successful entrepreneur must have cordial relation with his customers to gain their continued support. He must also maintain good relation with creditors, suppliers and employees in order to motivate them to higher efficiency.

**11. Communication skill:**

 Communication skill is the secret of the success of most entrepreneurs. Good communication skill enables them to put their points across effectively and with clarity and there by helps them to win customers.

**12. Self reliance and independence:**

 A successful entrepreneur wants to follow his own routine policies and procedures and he does not like to be guided by others. He is found to be self reliant by acting as his own master and making him responsible for all his decisions.

**13. Knowledge:** He/she has sound conceptual knowledge about all the technicalities of his business-be its technological, operational, financial or market dynamics. (Without sound knowledge of computers Narayanamurthy could not have made INFOSYS what it is today)

**14. Vision:** He/she has a dream and he visualizes the ways and means to achieve that dream. In doing so he visualizes the market demands, socio-economic and the technological environment and then based on these dynamics, he visualizes a future for his business venture.

**FUNCTIONS OF AN ENTREPRENEUR**

An entrepreneur is an agent who buys various factors of production with a view to combining them in to a finished product. While doing so, he has to perform the following basic functions:

**1. Risk assumption function (or) risk taking:**An entrepreneur has to act as a ‘Risk bearing’ or ‘Risk Taking’ agent of production as he has to bear a great amount of uncertainties in business. Uncertainty cannot be insured and incalculable. But, an entrepreneur has to assume this risk and tries to reduce these uncertainties by his imitative, skill and admirable ability.

**2. Decision making:**From starting stage to each and every development stage of a business an entrepreneur has to take decision. An entrepreneur has to decide about the nature and type of goods to be produced, the size of the business, its location, technique of production etc. a successful entrepreneur is one who takes sound decisions at the appropriate time so that his business may succeed.

**3. Managerial function:**An entrepreneur is one who combines the land of one, the labour of another and the capital of yet another and produces a product. While undertaking an enterprise, he has to perform all managerial functions starting with planning and ending with controlling.

**4. Function of innovation:**Innovation is an important function of an entrepreneur. Innovation is a never ending process. Innovator is a person who utilizes the invention to make new combinations of product. An entrepreneur has to look in to a new product or a new source of supply of new material. Innovators are always successful in their ventures.

 Apart, from the above function, following are the some of the function which an entrepreneur has to perform the initial stage to establishment of an enterprise:

1. Idea generation and selecting suitable idea.
2. Fixing business objectives
3. Product analysis and market research
4. Determination of form of ownership or organization
5. Completion of promotional formalities
6. Raising necessary funds
7. Procuring machine and material
8. Recruitment of men
9. Undertaking the business operations

**TYPES OF ENTREPRENEURSHIP**

There are various ways by which entrepreneurs have been classified. Different authorities have classified entrepre0neurs differently at different times. Given below are the types of entrepreneurs:

***I. On the basis of Danhof:***The most popular classification has been given by Clarence Danhof on the basis of his study of the American agriculture. According to him entrepreneur are classified as follows:

**1. Innovative entrepreneur:**An innovative entrepreneur is one who is able to foresee potentially viable and profitable opportunities through innovation. This type of entrepreneur is highly motivated and talented and “innovation” is his key function.

 An innovation entrepreneur may exhibit his talents of innovation in any one of the following forms:

1. Introduction of a new production
2. Introduction of a new method of production
3. Opening of a new market
4. Discovery of a new source of supply of raw materials of semi finished goods.
5. Reorganization of the enterprise so as to achieve monopoly

**2. Adoptive (or) Imitative entrepreneur:** Imitative entrepreneur is one who is ready to adopt the successful innovations already inaugurated by innovating entrepreneurs. In other words, an imitative entrepreneur does not innovate anything by himself, but, he only imitates techniques and technologies innovated by others. This type of entrepreneur has a vital role to play in developing countries.

**3. Fabian entrepreneur:** Fabian entrepreneur is one who adopts a great caution and skepticism in introducing any change in the business. Normally, he has neither the will to introduce any new changes nor the desire to adopt new methods. He is ready to imitate only when it becomes perfectly clear that failure to do so would definitely result in heavy loss for him.

**4. Drone entrepreneur:** Drone entrepreneur is one who blindly follows the traditional methods of production even when it causes loss to him. He is not prepared to introduce any change under any circumstances in the method of production he has already introduced.

***II. on the basis of Cole’s classification:***

 Arthur.H.Cole classifies entrepreneurs as follows:

**1. Empirical entrepreneur:** An empirical entrepreneur is one who never introduces anything revolutionary in his method of production or business. He simply follows the principles of rule of thumb. He is similar to a drone entrepreneur.

**2. Rational entrepreneur:** A rational entrepreneur is one who is ready to introduce even revolutionary changes on the basis of the general economic conditions. He takes rational decisions by himself depending up on the situation.

**3. Cognitive entrepreneur:** A cognitive entrepreneur is one who takes the advices and services of experts and introduces changes. Since he acts on the advice of experts, he is called a cognitive entrepreneur.

***III. On the basis of behavioural scientists:*** Following are the types of entrepreneurs which are classified by behavioural scientists:

**1. Solo operators:** This type of entrepreneurs will work alone. If necessary arises only they will appoint few employees. Most of the entrepreneurs, when they are starting an enterprise will start like this only.

**2. Active Partners:** The active partners are entrepreneurs who start their enterprise as a joint venture. All of them will actively participate in the operations of the business.

**3. Inventors:** These types of entrepreneurs with their own competence and inventiveness invent the products. Their main aim is to develop new products through research and development.

**4. Challengers:** Challenger entrepreneurs are always ready to face any type of new challenges in the industry. When one challenge is met, they start to face other challenges.

**5. Buyers:** This type of entrepreneurs will avoid risk. They are not risk takers. So, in order to reduce risk involved in starting a new enterprise, they like to buy the already existing successful enterprise.

**6. Lifetimes:** The life time entrepreneurs will done their business as integral part of their life. Usually this type of entrepreneurs are seen where mainly they depend on personal skill or family enterprise.

***IV. On the basis of type of business:***

 The entrepreneurs are also classified on the basis of type of business what they do which are as follows:

**1. Business entrepreneur:** Those entrepreneurs who conceive the idea of new product or service in to reality is said as business entrepreneur.

**2. Trading entrepreneur:** This type of entrepreneurs will not involve in manufacturing activities but they involve in trading activities as the name itself says. But he has to identify the potential market, create demand through advertisement.

**3. Corporate entrepreneurs:** The corporate entrepreneurs develop a plan and manage a corporate body. Corporate entrepreneur is a promoter, an important part of board of directors, as well as entrepreneur. He should get register their company under the companies act with separate legal entity.

**4. Agricultural entrepreneur:** Agricultural entrepreneurs involve in agricultural activities such as raising and marketing of crops, fertilizers and other inputs of agriculture. They are motivated to increase the productivity of agriculture.

**5. Industrial entrepreneur:** Industrial entrepreneurs are essentially manufactures who identify the needs of customers and produce goods. They are called product oriented persons. They have ability to convert economic resources and technology into a portfolio venture. They concentrate on marketing aspects also.

**6. Service entrepreneur:** This type of entrepreneur will do service oriented business alone. There main aim is to concentrate on service activities.

***V. On the basis of technology:***

**1. Technical entrepreneur:** Technical entrepreneurs as the name implies, are worried more about production and quality of goods produced. They are not at all bothered about marketing. They improve the techniques of production. They possess production skills. Technical entrepreneurs are technically educated or experienced.

**2. Non Technical entrepreneurs:** Non technical entrepreneurs are not concerned with the technical aspects of the product, which they are dealing. They are concerned more about marketing rather than production.

**3. Professional entrepreneur:** Professional entrepreneurs are those who are interested in establishing an enterprise. But they sell it after set up and start functioning and start another venture with the sale proceeds. They are dynamic, innovative and creative.

***VI. On the basis of motivation:***

**1. Pure entrepreneurs:** Pure entrepreneurs are individuals and are motivated by psychological and economic rewards. They undertake work to attain personal satisfaction in work. They are guided by the motive of profit and apply their business skills to earn more and more profit.

**2. Induced entrepreneurs:** People who are induced by offers of government and starts ventures to avail them are called induced entrepreneurs. Government offers facilities to encourage people to start their ventures in backward areas, or to start business in small scale sector, tiny sector etc. people induced by any of these facilities start their units in the related fields such facilities.

**3. Motivated entrepreneurs:** Motivated entrepreneurs are new entrepreneurs who are motivated by the desire for self fulfillment. They start ventures due to the possibility of producing and marketing new products in the market.

**4. Spontaneous entrepreneurs:** Spontaneous entrepreneurs are those persons who possess natural talents. They are born nor made entrepreneurs. They have confidence in their talents. All these factors motivate them to start venture. They are very bold and take initiative to start their ventures.

***VII. On the basis of development of stages:***

**1. First generation entrepreneurs:** First generations entrepreneurs are those who do not possess any entrepreneurial background. He is an innovator and combines his skill and technology to produce a good marketable product or service. They are self made entrepreneurs.

**2. Modern entrepreneurs:** Modern entrepreneurs keenly watch the changes in demand and start a venture to fulfill the current market needs. They always produce goods and services as per the changing needs of the time. They adopt changes very quickly.

**3. Classical entrepreneurs:** Classical entrepreneurs are those persons who are concerned more about customers as well as market. This type of entrepreneur will always produce goods and services as per the changing needs of the time.

***VIII. On the basis of others:***

**1. The new entrepreneurs:** Larry.C.Farrell in his work “searching for the spirit of enterprise” he has introduced a new type of entrepreneurs called “The new entrepreneurs”. New entrepreneurs will emerge due to circumstances like very poor or full of frustration or losing a job and similar other reasons. They are basically very ordinary people who find themselves in extra ordinary situations in a later period and they are called as new entrepreneurs.

**2. Academic entrepreneurs:** Teachers are referred to as academicians. If they design new courses or make innovations either in curriculum or teaching methods or devise new methods of teaching than they are called as academic entrepreneurs.

**3. Educational entrepreneurs:** In recent times, many entrepreneurs have come up with new ideas to engage children during summer vacation. They have novel ways to keep youngsters busy during vacations by organizing a variety of short term courses to suit the various requirements of children and students. These entrepreneurs are called educational entrepreneurs.

**4. Paper entrepreneurs:** After liberalization, financial operations are taking place on a global scale. A new class of entrepreneurs have emerged in this field also for buying and selling of shares, buying and selling of companies etc. this type of entrepreneur are said to indulge in “Paper entrepreneurship” and they are called paper entrepreneurs.

***IX. On the basis of ownership:***

**1. Private entrepreneurs:** Private entrepreneur is motivated by profit and it would not enter those sectors of the economy in which prospects of monetary rewards are not very bright.

**2. Public entrepreneur:** In the underdeveloped countries government will take the initiative to share enterprise.

***X. On the basis of scale of enterprise:***

**1. Small scale entrepreneurs:** This classification is specifically popular in the under developed countries. Small entrepreneurs do not possess the necessary talents and resources to initiate large scale production and introduce revolutionary technological changes.

**2. Large scale entrepreneurs:** In the developed countries most entrepreneurs deal with large scale enterprises. They possess the financial and necessary enterprise to initiate and introduce new technical changes.

**CONCEPT OF ENTREPRENEURSHIP:**

The word ‘Entrepreneurship’ is derived from the French language which means ‘to undertake’. It is defined differently by different authors. Some call entrepreneurship as ‘risk-bearing’, ‘innovating’, ‘organizer’, and ‘thrill seeking’.

In early 16th century, the entrepreneurship was used to denote army leader. In 18th century, it was used to denote dealers who buys and sells goods at uncertain prices. It is only in the recent years that entrepreneurship has been spread all over the world. It is a process involving various actions to be undertaken to establish an enterprise. As in management, what managers do, entrepreneurship was regarded as what entrepreneurs do.

Entrepreneurship has 2 elements namely innovation and risk bearing. Entrepreneurship plays a very important role in terms of:

1. Generation of employment opportunities
2. It is more dynamic, flexible and capable of making quick decisions.
3. Ensuring balanced economic development.

***ENTREPRENEUR Vs INTRAPRENEUR***

**.**

In big enterprise, the top level executives are encouraged to generate new ideas and convert them in to products through research and developmental activities within the framework of an organization. In recent years, it has become common that many top level executives left big organization and start their own business unit. These persons who turned to entrepreneurs came to be known as intrapreneur.

 The points of difference between entrepreneur and entrepreneur are given below:

|  |  |  |
| --- | --- | --- |
| **Basis** | **Entrepreneur** | **Intrapreneur** |
| **1. Dependency** | Entrepreneur is independent | Intrapreneur is dependent on the entrepreneur |
| **2. Raising of funds** | Entrepreneur himself raises funds on his own imitative to meet the requirements of the enterprise. | Intrapreneur does not raise funds |
| **3. Profit** | Entrepreneur enjoys the profit of the business | Intrapreneur does not take profit out of his innovations. He gets perquisites |
| **4. Risk Taking** | Entrepreneur bears the entire risk that is involved in the business | Intrapreneur does not bear the risk at all |
| **5. Ownership** | Entrepreneur is the real owner of the business | Intrapreneur is not the owner of the business |
| **6. Operation** | Entrepreneur works from outside the organization | Intrapreneur works from within the organization |
| **7. Nature of work** | Entrepreneur converts the innovative ideas of entrepreneur | Intrapreneur creates innovation. |

The term ‘intrapreneur’ emerged in during the seventies. Several senior executives of big corporations left their jobs to start this own small businesses because the top bosses in these corporations were not receptive to innovative ideas. These executives-turned-entrepreneurs achieved phenomenal success in their new ventures, posing a threat to the corporations they had left. These type of entrepreneurs came to be known as ‘intrapreneurs’.

The notion of intrapreneurship requires that managers inside the company should be encouraged to be entrepreneurs within the firm rather than to go outside. For an entrepreneur to survive in an organisaiton se/she needs to be sponsored and given adequate freedom to implement his ideas. Otherwise, the entrepreneur spark will die.

**CHARACTERISTICS OF INTRAPRENEURS:**

* Bridge the gap between inventors and managers
* Take new ideas and turn them into profitable realities
* Have a vision and the courage to realize it
* They can imagine what business prospects will follow from the way customers respond to their innovations
* Have the ability to plan necessary steps for actualization of the idea
* Have high need for achievement and they take moderate calculated risks
* **DISTINGUISH BETWEEN ENTREPRENEUR AND MANAGER.**
* There has been some difference between entrepreneur and manager which are:

|  |  |  |
| --- | --- | --- |
| **Basis** | **Entrepreneur** | **Manager** |
| **1. Status**  | An entrepreneur is the owner of the enterprise which he establishes himself | A manager is acting in the capacity of a servant in the enterprise |
| **2. Goal** | An entrepreneur starts a venture by setting up a new enterprise for his personal gratification | But the main aim of a manager is to render his service in an enterprise already set up by some one. |
| **3. Risk** | An entrepreneur bears all risks and uncertainty involved in the enterprise | A manager being a servant does not bear any risk involved in the enterprise |
| **4. Rewards** | Entrepreneur for his risk bearing role receives profit. It is uncertain and irregular. | A manager receives salary as reward for service rendered which is fixed and regular |
| **5. Innovation** | As an innovator he is called as change agent who introduces goods and services to meet changing needs of the customer | A manager executes the plans of the entrepreneurs. Thus a manager translates the ideas in to practice |
| **6. Motive** | The main motive of an entrepreneur is to start a venture by setting up an enterprise | The main motive of a manager is to render his services in an enterprise already set up |
| **7. Qualification** | An entrepreneur needs to possess qualities and qualifications like high achievement, motive and risk bearing | A manager needs to possess qualifications in terms of sound knowledge in management theory and practice. |

**ROLE OF ENTREPRENEURSHIP IN ECONOMIC DVELOPMENT**Entrepreneurship helps in the process of economic development in the following ways :
**1) Employment Generation :**Growing unemployment particularly educated unemployment is the problem of the nation. The available employment opportunities can cater only 5 to 10 % of the unemployed. Entrepreneurs generate employment both directly and indirectly. Directly, self employment as an entrepreneur and indirectly by starting many industrial units they offer jobs to millions. Thus entrepreneurship is the best way to fight the evil of unemployment.
**2) National Income :**National Income consits of the goods and services produced in the country and imported. The goods and services produced are for consumption within the country as well as to meet the demand of exports. The domestic demand increases with increase in population and increase in standard of living. The export demand also increases to meet the needs of growing imports due to various reasons. An increasing number of entrepreneurers are required to meet this increasing demand for goods and services. Thus entrepreneurship increases the national income.
**3) Balanced Regional Development :**The growth of Industry and business leads to a lot of Public benefits like transport facilities, health, education, entertainment etc. When the industries are concentrated in selected cities, development gets limited to these cities. A rapid development . When the new entrepreneurers grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of backward regions.
**4) Dispersal of economic power :**Industrial development normally may lesd to concentration of economic powers in a few hands. This concentration of power in a few hands has its own evils in the form of monopolies. Developing a large number of entrepreneurers helps in dispersing the economic power amongst the population. Thus it helps in weakening the harmful effects of monopoly.
**5) Better standards of living :** Entrepreneurers play a vital role in achieving a higher rate of economic growth. Entrepreneurers are able to produce goods at lower cost and supply quality goods at lower price to the community according to their requirements.When the price of of the commodies decreases the consumers get the power to buy more goods for their satisfaction. In this way they can increase the standard of living of the people.
**6) Creating innovation:**An entrepreneur is a person who always look for changes. apart from combining the factors of production, he also introduces new ideas and new combination of factors. He always try to introduce newer and newer technique of production of goods and services. An entrepreneur brings economic development through innovation.
**Entrepreneurship also helps in increasing productivity and capital formation of a nation**. In short, the development of the entrepreneurship is inevitable in the economic development of the country. The Role played by the entrepreneurship development can be expressed in the following words :

" Economic development is the effect for which entrepreneurship is a cause "

 **FACTORS THAT INFLUENCE ENTREPRENEURSHIP**

 The factors that influence entrepreneurship is categorized under two heads:

1. Internal factors
2. External factors

**I. INTERNAL FACTORS:** Internal factors consist of characteristics and behaviour of an individual. They relate to the personality of an individual. They are psychological in nature. These factors only motivate an individual to become an entrepreneur and contribute much to entrepreneurship. The internal factors have been classified as follows:

**1. Demographic factors:**

 a. Age

 b. Sex

 c. Education

 d. Cultural background

**2. Personal factors:**

 a. Technical skills

 b. Managerial skills

 c. Entrepreneurial skills

 d. Leadership skills and

 e. Personal values

**3. Social factors:**

 a. Community

 b. support of family

 c. Culture

**4. Personal qualities:**

 a. Need for success

 b. Risk taking

 c. Desire for freedom

 d. accepting of uncertainty

**5. Cultural factors:**

 a. Dynamism

 b. collectivism

 c. Individualism

 d. Avoiding ambiguity

**6. Environmental factors:**

 a. Unemployment

 b. Resources

 c. Political science

 d. Opportunity for development

**II. EXTERNAL FACTORS:** The external factors that influence a person to become an entrepreneur consist of the following:

**1. Social environment:**

 The social status counts a lot while making the choice of a career. In India, it is a fact that salaried persons enjoy better social status in society, besides enjoying security of job, assured income, lesser working hours and fewer responsibilities.

**2. Cultural environment:** Entrepreneurial talents come from cultural values and cultural environment. The cultural environment depends much upon the values and aspirations of the people. Entrepreneur cannot act contrary to the aspirations and values of the people in the society.

**3. Technological environment:** The entrepreneurs must have knowledge about the latest technological developments and also should be able to predict the life of the technology. Many of the entrepreneurs are hesitant to enter in to businesses which are technology oriented. But the first generation entrepreneurs do not hesitate to take up such technology oriented projects.

**4. Economic environment:** Economic environment pertains to the economic background of the individuals such as:

1. Whether a person has ancestral property or property earned on his own.
2. Details regarding current income
3. Standard of living and
4. Financial status that he enjoys.

They will influence the size of business and the capacity to take risks. These are micro level factors. Similarly, macro level factors such as market structure, competition profitability, investments, capital, labour, availability of land etc also have influence on entrepreneurship.

**5. Legal environment:** Legal environment consists of rules, regulations and laws framed by various acts under the Indian constitution. These are to be strictly followed by entrepreneurs from the stage of establishment of the concerns till their closure. As ignorance of law is not excusable, an entrepreneur is required to know all legal environments which he is bound to comply with. Important legislations, which affect entrepreneurs, are factories act, payment of wages act and payment of gratuity act.

**6. Political environment:** The political environment influences government policies which in turn influence entrepreneurship. Entrepreneurs will invest only where there is political stability. In case of an unstable government, the policies and programmes of the government keep changing, causing confusion and entrepreneurs will not be able to give their best due to the frequent changes in the government policies.

 **FACTORS THAT AFFECT THE GROWTH OF AN ENTREPRENEURSHIP**

Following are the factors of environment affecting entrepreneurial growth. These conditions are grouped under two categories:

1. Economic conditions
2. Non economic conditions

**Economic Factors:** The general purchasing power of the people, manifested by income levels and economic prosperity of the region, plays a major role in the success of entrepreneurial ventures.

* During times of economic slowdown or recession, the purchasing power declines and people remain reluctant to invest, affecting entrepreneurship adversely.
* In a subsistence economy, most of the people engage in agriculture, consuming most of their output and bartering the rest for simple goods and services. Entrepreneurial opportunities are few in such scenarios.

**1. Economic conditions:**

 Economic conditions include the capital, labour, raw material and market.

**a. Capital:** It is the essence of enterprise. Availability of capital facilities mobility of land, machine, material etc is required to produce goods. Therefore, capital is a lubricant which smoothens the working of vehicle called enterprise. Increased capital investment, capital output ratio results in profit, which ultimately goes up to capital formation.

**b. Labour:** Quality and quantity of labour influence the entrepreneurship mobility and immobility. Low cost labour and capital intensive technology oriented enterprises influence entrepreneurship.

**c. Availability of Raw material:** Critical factors that influence entrepreneurship include [availability of resources](http://www.brighthub.com/office/entrepreneurs/articles/73336.aspx) such as capital, human assets, raw materials, infrastructure, and utilities.

* [Capital remains indispensable](http://www.brighthub.com/office/entrepreneurs/articles/43291.aspx#ixzz0qCSdBWKV) to start an enterprise. The availability of capital allows the entrepreneur to bring together other factors and use them to produce goods or services.
* The importance of human assets or employees can never be underestimated. No enterprise succeeds without skilled and committed workforce.
* The very existence of the business depends on the availability of raw materials to process.
* Physical infrastructure and utilities such as good roads, parking space, communication facilities, and power all play a crucial factor in the seamless functioning of a business.

**d. Market:** The potential of the market constitutes the major department of probable rewards from entrepreneurial function. The size and composition of market monopoly in a particular product influence entrepreneurship.

**2. Non economic conditions:**

**Social conditions:**

 i. Socio cultural norms and values

 ii. Degree of approval or disapproval of entrepreneurial behaviour

 iii. Family background, standard of education, technical knowledge and information

 iv. Financial stability, caste and religious affiliation.

## Cultural Factors:Culture refers to the customary practices and beliefs that have a significant impact on the basic values, [perceptions](http://www.brighthub.com/office/entrepreneurs/articles/49838.aspx), preferences, and behaviors of people.

Culture and entrepreneurship intervene in many ways.

* People traditionally engaged in businesses have a pro business attitude and disdain working as employees.
* Many people fall outside the establishment and remain unsuited for the traditional job market due to a strong culture of independence or other reasons.
* Business school students come under the missionary zeal of teachers who exhort them to become entrepreneurs even if the opportunity cost is very high.
* The culture of consumerism where people desire material goods encourages entrepreneurship within the area as returns from a business become more than returns from a job.
* People engaged in jobs and other services pressure their children to find secure jobs and crush their entrepreneurship spirit at a very early age.
* A culture of thrift where people spend less and save for a rainy day discourages entrepreneurship within the local community as the returns from a business become less attractive compared to returns from a job.
* Cultures where [people are risk averse](http://www.brighthub.com/office/finance/articles/16345.aspx) and do not attach much importance to hard work and persistence is not conducive to entrepreneurship.

## Political Environment

The following are some of the ways in which the political environment influences entrepreneurship:

* Unstable political conditions where government policies change frequently discourage business, as investors fear for the safety of their investments.
* Government support to economic development through infrastructure development, facilitation, industrial parks, and the like all encourage entrepreneurship.
* High taxes that cut into the returns usually discourage entrepreneurs. On the other hand, tax holidays to encourage business attract start-ups.
* The availability of infrastructure and utilities such as good roads, power, communication facilities, and lack of corruption and bureaucratic delays in obtaining such utilities encourage entrepreneurship.
* Economic freedom in the form of [favorable legislation](http://www.brighthub.com/office/entrepreneurs/articles/59318.aspx) and few hurdles to start and operate businesses encourage entrepreneurship.
* While most businesses accept laws related to safeguard of labor rights and the environment, some countries have retrograde laws that make compliance very difficult and time consuming. Such legal hurdles create a barrier to entrepreneurship.

## Psychological factors

All other factors notwithstanding, the success of an entrepreneurial venture depends on the entrepreneur. The entrepreneur is the leader and driver of the venture, and requires the following skill-set and orientation for success:

* hard work and persistence
* ability to manage and minimize risk
* ability to draw up a comprehensive business plan, and having a contingency plan ready
* a strong need-orientation that provides the inclination to achieve things

With the collapsing trade barriers bringing in greater opportunities, and job security passé, the conditions for entrepreneurship are better than ever before.

**BARRIERS TO ENTREPRENEURSHIP.**

**ENVIRONMENTAL BARRIERS**

**Raw material:** Non-availability of raw material required for production of goods, especially during the peak season causes impediments in the growth of business. In such kind of situation, competition causes increase in the price of the raw material. This problem becomes severe if there are alternative goods or services available in the market.

**Labour:** Human resources have been identified as the most important resource in an organization. Lack of skilled labour in the market, lack of committed and loyal employees in the organization are the main problem in the company.

**Machinery:** The machineries come at the cost and because of rapid technological developments they also become obsolete very soon and need to be replaced, which requires lost of cash in hand. This is very difficult to maintain, especially in a small business organizations.

**Land and building:** Acquisition of land and construction of building at prime location with respect to business requires expenditure of large amount of scarce cash, especially in the small organizations.

**PERSONAL BARRIER:** These barriers are caused by emotional blocks of an individual. These cause mental obstruction to the individual and lead to the failure in business.

**Lack of confidence:** Many people think that they lack what it takes to become an entrepreneur. They look at successful entrepreneurs and think that they could never emulate them. To be fair, they probably could not. They think that they would never be able to find a successful idea or would be unable to attract the resources required and therefore dismiss the thought of becoming self-employed as irrelevant.

**Lack of dependability on others:** The aim to gain their additional expertise through the trial and error of experience, rather than seeking further personal development or assistance from others.

**Lack of motivation:** When an individual starts a new business venture he is filled with enthusiasm and drive to achieve success, but when he faces the challenges of real business, bear losses or his ideas don’t work, he loses interest/motivation. This causes further loss of interest and entrepreneur starts withdrawing himself/herself from the mainstream competition.

**Inability to dream:** It is being rightly said, “THINK BIG TO ACHIEVE BIG”. The entrepreneur who are short of vision or become satisfied with what they achieve sometimes loses interest in further expansion/growth of the business, which further impedes the growth of the business.

**INNOVATION:** It can be defined as the successful exploitation of new ideas-incorporating new technology, design and best practices is the key business process that enables the business to compete effectively. Innovation is something more than idea generation. It is because idea has little significance till it is converted into some useful products/services.

**Characteristics of innovations are:**

* Action oriented
* Help in making the products, service or process simple and understandable
* All about trying, testing and revising

**CREATIVITY:** “Being different for the sake of different may attract attention but that is not sufficient value. Time creativity must deliver real value”. It is defined as the process of developing an original product, service or idea that makes a socially recognized contribution. Moreover, novel combination of old ideas can also be considered as creativity. A creative person conceives an idea, which is new.

Entrepreneurial Motivation

 Entrepreneurial motivation clsssified the factors behind entrepreneurial growth into three categories as follows.

1. **Entrepreneurial ambitions**
* To make money
* TO continue family business
* To secure self-employment\ independent living
* To fulfill desire of self/ wife/ Parents
* TO gain social image
1. **Compelling reasons**
* Unemployment.
* Dissatisfaction with present employer.
* Make use of idle funds
* Make use of technical/ professional skills.
1. **Facilitating factor.**
* Success stories of entrepreneur.
* Previous association (experience in the same line or other line)
* Previous employment in the same or other line of activity.
* Property inherited/ self-acquired.
* Advice or influence(encouragement) of family members/ friends/ relatives

**R.A Sharma classified the factors which prompted the new entrepreneurs to enter into industry, as follows**

1. FACTORS INTERNAL TO THE ENTREPRENEUR
2. Strong desire to do something independent in life.
3. Technical knowelege and/ or manufacturing experience.
4. Business experience inn the same or related line
5. FACRTORS EXTERNAL TO THE ENTREPRENER
6. Financial assistance from institutional sources.
7. Accommodation in industrial estate.
8. Machinery on hire purchase.
9. Attitude of the Government to help new units.
10. Financial assistance from Non- government sources
11. Encouragement from big business.
12. Heavy demand.
13. Profit margin.
14. Unsound units available at a cheap price`

**UNIT 3**

**ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDP’s)**

**Entrepreneurship Development Programmes:** Entrepreneurship is regarded as one of the important determinants of the industrial growth of the country. The dearth of the entrepreneurial and managerial skill is one of the most common problems being faced by all under developed economies. Entrepreneurship is to promoted to help alleviate the unemployment problem, to overcome the problem of stagnation and to increase the competitiveness and growth of business and  industries. Various attempts have been made to promote and develop entrepreneurship. By giving specific assistance to improve the competence of the entrepreneur and his enterprise so as to make him and his entrepreneurial so that more people become entrepreneurs.

**Phases of EDP.**



**1) ldentification and Evaluation of the Opportunity:** The process by which an entrepreneur come up with the opportunity for new venture. Each opportunity must be carefully screened and evaluated. It is importantfor the entrepreneur to understand the cause of opportunity. It may be technological change, market shift, government regulation or competition. Opportunity analysis focus only on the opportunity but not the entire venture

**2) Development of the Business Plan:** A good business plan must be developed in order to exploit the defined opportunity. A good business plan is not only important on developing the opportunity but also essential in determining the resources required and obtaining these resources and successfully managing the resulting venture.

**3) Determination of the Required Resources:** The resources needed for the opportunity is also be determined. This process stars with an appraisal of the entrepreneur's available resources. Any resources that are critical must then be distinguished from those are just helpful

.

**4) Management of Enterprises:** After resources are identified, the entrepreneur must employ them through the implementation of the business plan. A control system must be established so that problem areascan be carefully monitored

.

**Objectives of EDP**

* creating a multiplier effect on opportunities for self-employment,
* augmenting the supply of competent entrepreneurs through training,
* augmenting the supply of entrepreneur trainer-motivators,
* participating in institution building efforts,
* inculcating the spirit of 'Entrepreneurship' in youth,
* promoting micro enterprises at rural level,
* developing and disseminating new knowledge and insights in entrepreneurial theory and practice through research,
* facilitating corporate excellence through creating intrapreneurs (entrepreneurial managers),
* improving managerial capabilities of small scale industries,
* sensitising the support system to facilitate potential and existing entrepreneurs establish and manage their enterprises,
* collaborating with similar organisations in India and other developing countries to accomplish the above objectives. The institute's basic strategy to realize its mission has been to concentrate on some broad areas to achieve its objectives. The areas so selected have to satisfy the twin criteria of social relevance and the institute's capability.

**Entrepreneurship Development Institute of India**

Entrepreneurship Development Institute of India was set up as an autonomous body under the Societies Registration Act on April 20, 1983. An acknowledged national resource institution, EDI is committed to entrepreneurship education, training and research. The institute strives to provide innovative training techniques, competent faculty support, consultancy and quality teaching & training material.EDI has been spearheading entrepreneurship movement throughout the nation with a belief that entrepreneurs need not necessarily be born, but can be developed through well-conceived and well-directed activities.

**ENTREPRENEURSHIP DEVELOPMENT INSTITUTIONS**

 **important institutions that help Indian entrepreneurs by providing financial and other supports.**

List of important institutions that are helping Indian entrepreneurs by providing financial and other supports

A number of support institutions set up by central and state governments help the entrepreneurial activities in various ways. The activities cover a wide range of services li financing, technical guidance, equipment support, training, marketing and providing subsidy and grants. The following institutions are available for providing the above mentioned benefits.

**1. Financial Institutions:**

i. Industrial Development Bank of India (IDBI)

ii. Industrial Finance Corporation of India (IFCI)

iii. Small Industries Development Bank of India (SIDBI)

iv. National Small Industries Corporation Ltd (NSIC)

v. State Small Industries Corporation (SSIC)

vi. Regional Rural Banks (RRBs)

vii. State Financial Corporations (SFCs)

viii. State Industrial Development Corporations (SIDCs

**2. Institutions for technical guidance:**

i. Small Industries Development Organisation (SIDO)

ii. District Industries Centres (DICs)

iii. Technical Consultancy Organisations (TCOs)

iv. Small Industries Service Institutes (SISIs)

v. State Small Industries Development Corporations (SSIDCs)

vi. Industrial Development Corporation (IDCo)

vii. Agricultural Promotion and Investment Corporation of Orissa Limited (APICOI

**3. Training Institutions:**

i. Small Industries Service Institute (SISI)

ii. National Bank for Agriculture and Rural Development (NABARD)

iii. Council for Advancement of Peoples Action and Rural Technology (CAPART)

iv. District Industries Centre (DIC)

v. Entrepreneurship Development Institute of India (http://www.ediindia.org)

 **Evaluation of EDP.**

EDPs suffer on many counts. The important problems EDPs face are listed as follows:

* Trainer-motivations are not found upto the mark in motivating the trainees to start their own enterprises.
* ED organizations lack in commitment and sincerity in conducting the EDPs.
* Non-conductive environment and constraints make the trainer-motivators role ineffective.
* The antithetic attitude of the supporting agencies like banks and financial institutions serves as stumbling block in the success of EDPs.
* Selection of wrong trainees also leads to low success rate of EDPs.
* No policy at the national level
Problems at the pre-training phase
Over estimation of trainees
Duration of EDPs
Non-availability of infrastructural facilities
Improper methodology
Non availability of competent faculty
Poor response of financial institutions

**SMALL INDUSTRIES SERVICE INSTITUTE (SISI).**

 The Small Industries Service Institutes are set up to provide consultancy and training to small entrepreneurs. There are 28 SISIs set up all over India.

**Functions of SISI**

***A. Technical Advisory Service***

* Technical advice for setting up of new small scale units, choice of machinery design, layout, institution and operation of plant and machinery.
* Preparation of designs and drawings for production equipment and accessories to improve production process.
* Technical guidance on the efficient use of raw materials, utilization of substitutes, waste and scrap.
* Technical assistance in design and development of new products.

**B. Workshop and Laboratory Services:** SISIs have workshops, laboratories and showrooms attached to them. With the help of these workshops SISIs. Carry out experiments and laboratory analysis on new and substitute raw materials.

**C. Management Consultancy Services:** SISIs provide guidance in proper methods of industrial management, including cost reduction, production management, marketing etc.

***D. Training of Workers, Foreman and Managers:*** SISIs and extension centres train workers from small industry in certain trades such as machine shop practice, tool and die making, welding, wood working etc. Training to foreman is given on Adhoc basis as well as organized basis.

***E. Promotion of Entrepreneurship and Development of SSI in Rural and Underdeveloped Areas:*** Developing entrepreneurship by organizing training programmes for engineers, graduates, students, ex-servicemen etc. and people from backward, rural, tribal and hill areas.

***F. Economic Service***

* Conducting surveys of particular industries and areas and making recommendations for developmental programmes.
* Undertaking market surveys for industrial enterprises.
* Supplying market information in selected areas.

 **DISTRICT INDUSTRIES CORPORATION (DIC).**

The establishment of District Industries Centre in 1978 was a landmark in the development of small and cottage industries in India. The Industrial Policy Resolution, 1977 proposed the setting up of District Industries Centre in the headquarters of each district in India.

DIC was set up to provide under single roof all the services and support required by small and village entrepreneurs. At present there are 422 DICs operating in 431 districts of our country.

**Structure of DICs**

 DICs consist of:

* One General Manager
* Four Functional Managers:
1. Economic and Investigation
2. Credit
3. Village Industries
4. Raw materials / Marketing / Training.

***Three Project Managers:*** To provide technical services in the area relevant to the needs of the districts concerned.

District Industries Centres maintain close linkages and co-ordination with the central and state government organizations concerned with the promotion and development of cottage, village and small scale industries.

**FUNCTIONS OF DISTRICT INDUSTRIES CENTRE**

**1. Motivation Campaigns:** District Industries Centres conducts motivation campaigns throughout the districts to motivate and identify the potential entrepreneurs.

**2. Surveys:** DIC conducts surveys to assess industrial potential in the district keeping in view the availability of raw materials, human skills, infrastructure, demand etc. It prepares techno-economic studies, identifies product lines and works out cost estimates. On the basis of such investigation it provides investment advice to entrepreneurs.

**3. Action Plans:** For the industrial development of the district, Action plans are prepared by the DIC. These plans are co-ordinate with the District Credit Plans of the Lead Bank.

**4. Registration:** DIC provides provisional and permanent registration to the new entrepreneurs.

***Provisional Registration:*** The provisional registration is given to an entrepreneur to take all necessary steps to bring the unit into existence. It is awarded for two years in the first instance and thereafter can be renewed every year. But the renewal is limited to two times only.

 Provisional registration enables the entrepreneurs to

* Apply to corporation, municipality or other local authorities to construct building for establishing the unit.
* Apply for plot / shed in industrial estate.
* Apply for power connection
* Apply for financial assistance to financial institutions / banks.
* Apply to NSIC and other institutions to buy machines.
* Apply for sales tax registration.

***Permanent Registration:*** After completing the steps that are required for installing the unit, the entrepreneurs may apply for permanent registration. Once he gets permanent registration, the entrepreneur is entitled to get the following facilities:

* Apply for scarce raw material on concessional rates from government sources.
* Apply for marketing through government agencies.

Registration of a new unit is not compulsory. It helps the entrepreneurs to avail certain facilities which are not otherwise provided to him?

**5. Help to Obtain Credit:** DIC recommends loan applications to banks and financial institutions and helps to obtain credit. It keeps liaison with banks and financial institutions and monitor flow of credit to industries in the district.

**6. Guidance:** provides guidance and assistance to entrepreneurs in identifying appropriate machinery and equipment, ascertaining the sources of supply for machinery and also importing machinery. It also ascertains raw material requirements and their sources, arranges bulk purchase of raw materials and interacts with various authorities for the supply of scarce and critical raw materials.

**7. Recommending Application to Various Organisations:** helps the entrepreneurs to get power connection by pursuing with Electricity Board. Recommends applications for power tariff concessions and subsidies.

**8. Marketing Assistance:** DIC collects marketing information, organizes marketing outlets, keeps liaison with government procurement agencies, assesses the possibilities of export and ancillarisation and suggests appropriate marketing strategies to entrepreneurs.

**9. Training:** DIC conducts training programme for artisans and identifies opportunities and projects for the trainees.

**10. Entrepreneur Development Programme:** DICs conduct EDPs in association with SISI and various TCOs to develop entrepreneurial skills in the young entrepreneurs.

**11. Fairs and Exhibitions:** The DICs encourage the SSI units to participate in the International Trade Fairs by providing free space for display of their products.

 In addition to the above, the government has set up the following institutions to give training and consultancy services like technical consultancy, tool room service, business management courses, training to technical personnel and assistance in design and development.

**SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SIDCO)**

***Origin:***

 The State Small Industries Development Corporations (SIDCO) was set up in various states under the companies’ act 1956. It helps to cater the needs of tiny, small, and village industries in the state and union territories. In Tamil Nadu, the Small Industries Development Corporation Ltd. (SIDCO) was set up in 1970 for the promotion and development f small scale industries in the state.

***Functions:***

 The important functions of SIDCO are:

* To procure and distribute scarce raw materials
* To supply machinery on hire purchase system
* To provide assistance for marketing of the products of small scale industries
* To construct industrial estates, providing allied infrastructure facilities and their maintenance
* To extend seed capital assistance on behalf of the state government concerned
* To provide management assistance to production units.

SIDCO has been actively engaged in the following:

 **1. Formation of Industrial Estates:** SIDCO is constructing industrial work sheds with all infrastructural facilities in select locations. The required infrastructural facilities like roads, lights, water supply, drainage facilities etc. are provided in the industrial estates.

 **2. Marketing Assistance:** SIDCO participates in the tenders floated by government departments on behalf of small scale units and obtains orders for them. It also arranges Buyer-Seller Meet so that the government departments will be aware of the SSI products and also to give an opportunity to SSI units to know the actual demand of the departments.

 **3. Hire Purchase and Equipment Leasing Scheme:** Under this scheme, SIDCO renders a package assistance of the allottees of sheds at Industrial Estates for the supply of machinery and equipment under hire purchase and on lease.

 **4. Export House:** SIDCO has been recognized as Export House by the Government of Tamil Nadu. It identifies potential industrial units supplying export worthy products and prospective buyers of the products abroad. It makes contacts with overseas importers and their agents in India and assists SSI units in exporting their products.

 **5. Industrial Development in Backward Areas:** In order to develop the backward areas industrially and to provide employment to rural educated unemployed youth SIDCO constructs industrial estates in rural areas.

**UNIT 4**

 **VARIOUS SOURCES OF BUSINESS IDEA.**

Various entrepreneurship researchers have looked at the source of an entrepreneur’s ideas. These studies have shown that the sources of their ideas are unique and varied. To choose a business idea, skill, foresight and ingenuity are required on the part of the entrepreneur. An entrepreneur should have competencies, capabilities and resources while identifying the business idea. The various sources of business ideas are:

**1. Market characteristics:** Unfulfilled demand for a product will open the door for new product. Supply and demand of various products and demand for new products should also be analyzed.

**2. Emerging new technology and scientific know how:**Commercial exploitation of indigenous or imported technologies and know how is another source of project idea.

**3. Social and economic trends:** Social and economic status of people is always dynamic in nature and offer wide opportunities. An entrepreneur should observe such changes.

**4. Changes in consumption pattern:**Changes in consumption pattern of the people in the home country and foreign countries also require the entrepreneurs’ attention.

**5. Revival of sick units:**A sick unit gives ample investment opportunities in the hands of dynamic entrepreneur. He can revitalize and turn a sick unit in to a profitable one.

**6. Trade fairs and trade journals:**Visiting exhibitions, trade fairs and industrial fairs may give us lot of ideas as to products.

**7. Creative thinking:**To become a successful entrepreneur creative thinking is a must. He should look at new ways of doing old things. Analysis of old ideas is capable of revealing the modern ideas.

**8. Recycling of waste materials:**Some leading industries waste materials are very much useful for the production of other products. The waste material of sugar factory known as wastages it is an important raw material for making alcohol.

**9. Advertisements:**A close analysis of message given by advertisements in various media will disclose what kinds of products are commonly produced in our country. This sort of analysis would help an entrepreneur to decide his product, its quality, cost etc.

**10. Success of friends and relatives:**Successful stories of friends and relatives are another source of ideas. Such stories are capable of inspiring people and drive them to appraise and undertake new projects.

**CONCEPT OF PROJECT.**

A project is a scientifically evolved work plan devised to achieve a specific objective with in a specific period of time. It presupposes commitment to tasks to be performed with well defined objectives, schedule and budgets. Each project differs in size, nature, objectives and complexity.

The dictionary meaning of project is it is a scheme, design, a proposal of something intended or devise to be achieved.

***Definition:***

 The World Bank defines a project as “an approval for a capital investment to develop facilities and to provide goods and services.”

 In the words of Little and Mirless, “any scheme or a part of a scheme for investing resources which can be reasonably analyzed and evaluated as independent unit. It may be any separately evaluated.”

**CLASSIFICATIONS OF THE PROJECTS.**

**1. Compliance and emergency projects:** Compliance projects are must to do projects. They are typically those projects needed to meet regulatory conditions required to operate in a region.

 Emergency projects are also of a must to do project. If these are not implemented, they will de definitely subjected to penalties.

**2. Operational projects:** Operational projects support current operations. They are normally conducted to improve efficiency of delivery system, reduce cost of goods produced, and improve the performance.

**3. Strategic projects:** Strategic projects are long term projects. They normally support the long run objective of the organization. They are directed to increase the market share, revenue etc. These are made by developing new products, conducting research and development etc.

**4. Quantifable 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.

**5. Sectoral projects:** Indian planning commission uses the classification for the purpose of resource allocation at macro level. They are:

* Agriculture and allied sector
* Irrigation and power sector
* Industry and mining sector
* Transport and communication sector
* Social services sector
* Miscellaneous sector.

**6. Techno economic projects:**

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 etc

c. Classification on the basis of magnitude of investment and operations such as large, medium, small and tiny scale.

**7. Classification by financial institution:** Financial institutions classify he projects according to their age, experience and purpose for which the project is being taken up. They are:

1. New projects
2. Expansion projects
3. Modernization projects
4. Diversification projects

The service oriented projects are classified as:

1. Welfare projects
2. Service projects
3. Research and development projects
4. Education projects

 **PHASES OF PROJECT LIFE CYCLE.**

A project life cycle consists of 3 main stages:

**1. 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 and pre investment appraisal.

**2. 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, man power resources etc.

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

Pre investment stage

Construction stage

Normalization phase

**PROJECT FORMULATION**

Project formulation is the systematic development of a project idea for the eventual purpose of arriving at an investment decision. It involves a step by step investigation and development of project idea. It is a process involving the joint efforts of a team of experts. Each member of the project team should be fully familiar with the broad strategy, objectives and others ingredients of the project.

 **ELEMENTS OF PROJECT FORMULATION:**

**1. Feasibility analysis (or) Project feasibility:** In this stage, the project idea of future are examined by analysis both internal and external constraints. It involves 3 alternatives which are:

1. Project idea feasible or positive and proceed for further investment
2. Project idea not positive and no further investment is made.
3. If it is not possible to have conclusion, investment decision can be postponed.

The project feasibility analysis is carried for 2 stages:

1. Pre feasibility study and
2. Feasibility study

**a. Pre feasibility study:**Pre feasibility study examines the economic alternatives, market capacity, plant capacity, material input and site. After a detailed pre feasibility study only the funds must be allowed to techno economic study.

**b. Feasibility study:** This study involves investigating the project from six different aspects of economic, technical, managerial, organizational, commercial and financial aspects. Feasibility study analyses the critical elements relating to the production of a product.

**2. Techno –Economic analysis:**Technical feasibility simply refers to the adequacy of the proposed plant and equipment to produce the product as per the required norms. This aspect requires a careful examination and a thorough assessment of various inputs of the project like land, machineries, trained labour, fuel etc.

**3. Financial analysis:**Finance is the most important pre requisite to establish an enterprise. It involves estimating the project costs, operating costs and fund requirements. In order to analysis finance it uses some financial tools like discounted cash flow, cost volume profit analysis and ratio analysis.

**4. Project design and network analysis:**It is a heart of a project entity. It defines individual activities which constitute the project and their interrelationship with each other. Network analysis makes the sequence of events of the project.

**5. Input analysis:**This analysis is made to assess the input requirements during the construction of the project and also during operation of the project. It is related to identification, qualification and quantification of input requirements.

**6. Social cost benefit analysis:**This analysis is made to ascertain all social costs and secondary benefits to find out the impact of a project.

**7. Pre investment plan:**The project formulation gets a final shape at this stage only. The results got from the above 6 steps are consolidated and conclusions are arrived at this stage.

**PROJECT REPORT**

Project report is a written document that summarizes a business opportunity and defines how the identified opportunity is to be seized and exploited. It is prepared by an expert after detailed study and analysis of the various aspects of a project. It acts as a guide to management, especially at the initial stage to now whether technical, commercial, financial and economic conditions are feasible or not. This project report can be shown to the bankers or other financial institutions to get financial assistance.

**PURPOSE OF PROJECT REPORT**

**1. Development Tool:** Business plan acts as a development tool for entrepreneurs. It forces entrepreneurs to address important issues. It provides a check and balance for the entrepreneurs.

**2. Helps to clarify the vision and mission:** Organizational vision and mission statements are important elements in planning the entrepreneurial venture. They describe and explain to the others what the entrepreneurial venture is about. It forces the entrepreneurs to consider their purpose, value and expectations.

**3. Defines planning and evaluation guidelines:** Business plan is a working document that should be used beyond the start up phase. It guides the decision maker, planning and evaluating issues throughout the life of the business. It clarifies what are the goals and plans. If planning is done, entrepreneur can manage the uncertainties even better than in an unplanned action.

**4. Helps entrepreneurs to secure financial resources:** Potential lenders never provide finance to business ventures especially for a new venture without some type of analysis of financial data both current as well as future. Hence, it enables the entrepreneurs to secure needed finance easily. Financial analysis and projections is a must for getting finance from outside sources.

**5. Guides growth:** Planning the ventures serves as a tool for guiding growth. It provides the road map for pursuing the opportunities that wait. A well designed business plan can lay the foundation for growth. An entrepreneur to succeed in his venture; need to develop a strong business plan, so that it helps to provide for future growth of the venture.

 **STEPS IN PREPARATION OF A PROJECT REPORT.**

 An entrepreneur, to get the project sanctioned has to consult the planning commission. There are certain guidelines given by the planning commission for preparing a project report which are:

**1. General information:** It should contain general information regarding the company/enterprise. The project report should also contain an analysis of the industry to which the project belongs. It should contain the past performance of the industry, the priority of the industry, role of the industry, change in production over a period of time, allocation or investment of funds etc.

**2. Preliminary analysis of alternatives:** All options that are technically feasible should be considered at this preliminary stage. The location of the project as well as its implication. The rate of return on investment should be calculated and presented in the report. Also, the alternative cost calculations against the returns should be presented.

**3. Project description:** The project report should provide a brief description of the technology/process chosen for the project information relevant to determining optimality of the location chosen should also be included. The report should contain a list of the operational requirements of the plant, requirements of water and power, personnel etc.

**4. Marketing plan:** It should contain data on marketing plan i.e. demand and prospective supply in each of the areas to be served. The methods and data used for making estimates at domestic supply and presented. It should also contain an analysis of past trends in prices.

**5. Capital requirements and costs:**  Information an all items of costs should be carefully collected and presented. The estimates of costs should be reasonably complete and properly classified.

**6. Operating requirements and costs:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating costs should be collected.

**7. Financial analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A proforma balance sheet for the project data should be presented. The report must also analyze the sensitivity of the rate of return to changes in the level and pattern of product prices.

**8. Economic analysis:** Social profitability analysis needs some adjustments in the data relating to the costs and returns to the enterprise. The enterprise should try to assess the impact of its operations on foreign trade.

**9. Miscellaneous aspects:** Other aspects relevant to the enterprise, which is collected, should also be included.

**CONTENTS OF PROJECT REPORT.**

**Investment size:** It depends upon the entrepreneur’s capacity to raise resources and his attitude towards economies of scale. If the project is to be financed through all-india institutions with lesser promoter’s contribution, the project cost should be at least Rs. 3to5crores

**Location:** A new entrepreneur should as far as possible locate his project in and around a state headquarters. Such a location helps to attract competent managers and facilites liaison with the SIDCO, the state electricity board and various other agencies.

**Technology:** It is better for a new entrepreneur to go in for a project with proven technology which is indigenously available. It avoids the problems of foreign technical collaboration and makes like easier.

Equipment:

**General information:** Information on product profile and product details and some of the general information about the production of product is to be collected.

**Promoter:** The promoter must have educational qualification, work experience, period related experiences are to be collected and included in project report.

**Land and building:** It has to estimate the plant layout in the project, land areas, construction area, type of construction, cost of construction and necessary details.

**Plant and machinery:** The information about plant and machinery capacity, suppliers, cost, details of machinery, various alternatives available, cost of miscellaneous assets.

**Utilities:** The detailed information about sources of utilities, water, power, steam and cost estimates.

**Production process:** Description of production process, process chart, technical knowledge, technology alternatives available and production programme.

**Transport and communication:** Mode, possibility of getting, costs that are available for the transport and communication of the project should be included.

**Raw material:** List of raw materials, quality and quantity requirements, sources of supply, cost of raw materials, tie up arrangements for continuous supply, alternatives of raw material if any should be mentioned in the project report.

**Manpower:** The details about manpower requirement of skilled and semi skilled, sources of manpower supply, cost of procurement, cost of training etc is necessary one.

**Market:** Every product produced must be sold in the market. So the information about end users of product, distribution of market, national, international trade practices, sales promotion and proposed market research.

**Working capital:** Working capital required sources, need for collateral security, nature and extent of credit facilities offered and available.

**Requirement of funds:** Break up of project cost in terms of costs of land, building, machinery and margin money for working capital, arrangements for meeting the cost of setting up of the project will determine the fund requirement.

 **Other contents:** The following other information must also contain in the project report:

* Cost of production
* Break even analysis
* Projected balance sheet and cash flow
* Schedule of implementation of the project
* Repayment of schedule
* Overflow disposal

**PROJECT APPRAISAL**

Project appraisal refers to the assessment of a project. It involves the conduct of a costs and benefit analysis of different aspects of proposed project with an objective to adjudge its viability. It helps in selecting the best project among available alternative projects. Financial institutions appraise projects before lending finance to them so as to assess their credit worthiness. It aims at determining the viability of a project.

**VARIOUS METHODS OF PROJECT APPRAISAL.**

**1. Pay back method:** Pay back period is the time required to recover the original investment through income generated from the project. Pay back period is very simple and widely used method for profitability analysis of a project. It can be calculated by:

Pay back period = Original cost of investment/Annual cash inflows.

*Suitability:*

1. This method is applicable where the project cost and period is small
2. If a firm has scarcity in cash
3. If the project is highly risk and subject to technological changes.

**2. Average rate of return:**This method is considered better than pay back period because it considers earnings of the project. It is also known as return on investment. It relates to earnings of investment and it is calculated by

 Return on investment = Average annual earnings after tax/ Average book investment after depreciation.

***Merits of ARR:***

 a. This method is easy to understand and simple to operate.

 b. It takes in to account the earnings of the entire economic life of the project

 c. It is applicable to the projects which are differing in capital.

 d. It considers net earnings after depreciation

**3. Net present value method:**This method considers the time value of money. This method highlights that a rupee today has s higher value than a rupee after a year. The present value of a future cash flow is calculated with:

 **Present value = s\*1/(1+r)t**

**Where, s= cash flow, t = Year, r = Interest value.**

**4. Internal rate of return:**It is otherwise called as yield on investment or rate of return method. This method is used when the cost of investment and the annual cash inflows are known. IRR (internal rate of return) is defined as the rate of return when used to discount the cash flows of investment, reduce its NPV to zero. The advantage of this method is to recognize the time value of money.

**5. Profitability Index:**It is the ratio of present value of expected future cash inflows and initial cash outflows:

 **Profitability index = Present value of cash inflows/Present value of cash outflows**

Projects having profitability index of more than one should be selected. If choice amongst two or more projects is there, projects with highest profitability index should be preferred.

 **UNIT 5**

**INCENTIVES AND SUBSIDIES**

 **An incentive is basically a motivational force which makes a person take a decision which he might not have taken otherwise. It also possible that the incentive makes him to do more work or to do it more efficiently.**

 **Need for incentive:**

**1 To correct regional imbalance inn development**

**2. To promote entrepreneurship by removing economic constraints**

**3. To provide competitive strength, survival and growth**

**VARIOUS CONCESSIONS AND TAX BENEFITS AVAILABLE TO SMALL – SCALE INDUSTRIES IN INDIA**

**Tax benefits and concessions:**

Taxation benefits relate to

* Income-tax.
* Exercise duty.
* Sales tax.
* Electricity duty.

 The taxation system offers the number of benefits to SSI. Various taxation benefits are available to small units both central and state level.

1. **Tax benefits under income tax act:**
2. **Tax holiday:** For SSI units tax holiday under Income tax Act here maximum of 6% per annum of the capital. This exemption is allowed for a period of 5 years from the commencement of production. It is essential that an existing unit should employ 10 or more workers in a manufacturing process with power or at least 20 workers without power.
3. **Depreciation:** Depreciation is allowed up to Rs.20lakhs. The amount of depreciation is calculated on the diminishing method. The depreciation allowances are allowed only on fixed assets, building, machinery, plant machinery, plant and furniture’s. All relevant particulars may furnish to the income tax officer.
4. **Rehabilitation allowances:**This allowance is granted to those business has been discounted on account of flood, cyclones, earthquake or other natural calamities. And also due to riot and civil disturbance, accident, fire or explosion. The rehabilitation amount has to be used for the business purposes within 3 years of the units re-establishment, reconstruction, and revival.
5. **Investment allowances:**Investment allowance at the rate of 25% of the cost of acquisition of new plant or machinery installed is allowed. It should be availed of the year of installation or in the immediate following year.
6. **Expenditure loans:**Reductions of any revenue expenditure incurred on scientific research related to the business. It is allowed for any scientific association, university, college or institution.
7. **Amortization of expenses:**Preliminary expenses incurred in connection with preliminary and development expenses in preparation of feasibility report, legal charges, engineering expenses are allowed to be written off. The amount of expenditure allowed is 2.5% of the total cost of project. If the unit is established in back ward region than 20% is allowed.

**Exercise duty:**Modified Value Added Tax (MODVAT) scheme for all SSI unit. MODVAT scheme sets off exercise duty other countervailing duties paid on various inputs of final products. Thus, the exercise tax burden is symptom from inputs to the final products. MODVAT gives special tax benefits on inputs and final products of small scale industries.

**Sales tax:**The nature quantum of sales tax incentives vary from state to state. Concessions also vary for new and existing unit. A new industrial unit is entitled to get refund of the central state tax in the form of interest