

**BHARATHIDASAN UNIVERSITY CONSTITUENT  
COLLEGE OF ARTS AND SCIENCE  
NAGAPATTINAM-611106**



**M.B.A  
CORE COURSE - XVII  
ENTREPRENEURIAL DEVELOPMENT**

**AUTHOR**

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**CORE COURSE -XVII: ENTREPRENEURIAL DEVELOPMENT**

Objectives of the course:

1. To provide a basic frame-work to start a small / medium scale business / Industrial Unit.
2. Preparation of Project profile / Report on a line of manufacture / business / service unit of actual interest to the participant – bankable project report taking into account technical feasibility, financial viability, requirements of financial institutions / commercial banks etc.,

**UNIT I**

Entrepreneur - meaning - importance - Qualities, nature, types, traits, culture. Similarities and differences between entrepreneur and intrapreneur. Entrepreneurship and economic development - its importance - Role of entrepreneurship - entrepreneurial environment.

**UNIT II**

Evolution of entrepreneurs - entrepreneurial promotion: Training and development. Mobility of entrepreneurs - entrepreneurial change - occupational mobility - factors in mobility - Role of consultancy organizations in promoting entrepreneurs - Forms of business for entrepreneurs.

**UNIT III**

Project management: Sources of business idea - Project classifications - identifications - formulation and design - feasibility analysis. Financial analysis - project cost estimate - operating revenue estimate -Ratio analysis - investment Process - B E analysis - Profit analysis - Social cost benefit analysis - Project Appraisal methods. Preparation of Project Report and presentation.

## **UNIT IV**

Project finance: Sources of finance - Institutional finance - Role of IFC, IDBI, ICICI, LIC,SFC, SIPCOT, Commercial Bank - Appraisal of bank for loans. Institutional aids for entrepreneurship development - Role of DICS, SIDCO, NSICS, IRCI, NIDC, SIDBI, SISI, SIPCOT, Entrepreneurial guidance bureau - Approaching Institutions for Assistance .

## **UNIT V**

Steps in setting SSI unit - Problems of entrepreneurs - Sickness in small industries - reasons and remedies - Incentives and subsidies - Evaluating entrepreneurial performance - Rural entrepreneurship - Women entrepreneurship.

### **Recommended Text book**

1) For Unit I and III

Entrepreneurship ByRajee Roy Oxford University press – Chennai.

Email : v.anand@oup.com

2) For Unit II, IV, V

Entrepreneurship Text and cases By P. Narayana Reddy – cengage learning. Email : sriram.b@cengage.com

3) For preparation of Project Report and Filling in Unit V

Management and Entrepreneurship ByKanishkaBedi Oxford University press.

4) For Better Projects Through SWOT Analysis in Unit V

Entrepreneurial Management Edited volume by ShivaganeshBhargava – contributed by N. Mani Mekalai and A. Mohamed Abdullah, Bharathidasan University Trichy. Book published by Sage publications Chennai. Email :[chennai@sagepub.insagepublications.com](mailto:chennai@sagepub.insagepublications.com)

5) Entrepreneurial Development ByJayshree Suresh, Margam publications, Chennai.

## **Suggested Readings**

- 1) Entrepreneurship in The New MilleniumByKuralko and Hodgetts – Cengage learning.
- 2) Entrepreneurship – Robert D Hisrich and others, Tata Mcgraw Hill Co.

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**ENTREPRENEURIAL DEVELOPMENT**

**1.1 Introduction**

Entrepreneurship refers to all those activities which are to be carried out by person to establish and to run the business enterprises in accordance with the changing social, political and economic environments. Entrepreneurship includes activities relating to the anticipation of the consumers likes and dislikes, feelings and behaviors, tastes and fashions and the introduction of business ventures to meet out all these expectations of the consumers.

## 1.2 Meaning

Entrepreneurship is considered as a 'new product' that would enable businessmen to develop new form of business organization and new business activities catering to the changing needs of the society. The liberalization of cultural rigidities is mainly due to this new product 'entrepreneurship'. Entrepreneurship is the ability of entrepreneurs to assess the risks and establish businesses which are risky but at the same time suits perfectly to the changing scenarios of the economy.

The two major factors determine the entrepreneurship developments are:

- ❖ Risk taking ability of entrepreneurs
- ❖ Power of achievement of entrepreneurs

The other factors are:

- ❖ The performance of speculative functions to gain edge over others.
- ❖ Considering new factors of production, time, technology and quality for success.
- ❖ Availing new sources of capital
- ❖ Performing functions of employer, master, merchant and undertaker.
- ❖ Supply goods and services which are hitherto unknown to consumers.
- ❖ Find a new market which is hitherto unexploited.
- ❖ Seizing new opportunities for exploitation.
- ❖ Developing the less developed countries and developing nations
- ❖ Decision making under uncertain situations.

Entrepreneurship development could be made through a collective approach of the qualified individuals and the entrepreneurial role played by the Government and other agencies. They strive for betterment and provide conducive infrastructure including the technology that is unheard and unthought-of so far.

The essential Elements of Entrepreneurship Development are given in the following exhibit.



## Entrepreneur

The word Entrepreneur“ has been taken from the French word. It means Between Takers. Entrepreneur is another name of Risk Taker. An entrepreneur is an individual who takes moderate risks and brings innovation. Entrepreneur is a person who organizes/ manages the risks in

his/her enterprise. “Entrepreneur is a individual who takes risks and starts something new”

### 1.3 Definition of Entrepreneur

- ❖ An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and looks for high achievements. He is a catalytic agent of change and works for the welfare of people.
- ❖ The entrepreneur is a critical factor in the socio-economic change. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and coordinates- all other activities.
- ❖ The term ‘entrepreneur’ is defined in different manners by differ-ent experts.
- ❖ “Entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organization going with his ability to identify them and opportunities which others are not able to identify and is able to fulfill such economic opportunities. Innovation occurs through i) Introduction of a new quality in a product of ii) new product iii) discovery of fresh demand and fresh sources of supply and iv) by change in the organization and management”.

### 1.4 Definition of Entrepreneurship



- ❖ In a changing environment, the entrepreneurship development activities are getting multiplied. Since the dawn of industrial revolution to till date, we encountered certain drastic changes in the economic activities. Thus, it is not an easy task to give a comprehensive definition for the word ‘entrepreneurship’. Despite that, relevant definitions of entrepreneurship are listed here.
- ❖ “Entrepreneurship as the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging the supply of materials, finding site, introducing new techniques and commodities, discovering new sources of raw materials and selecting top managers of day to day operations of the enterprise”.

## 1.5 Entrepreneurship Development

Entrepreneurship development could be made in all walks of the society and in all fields of activities. The scope of entrepreneurship development encompasses the following:

### Definitions

- ❖ According to J.B.say, “Entrepreneur is an Economic agent to unites all the means of production”
- ❖ An entrepreneur is an individual who takes moderate risks and brings innovation.
- ❖ An **entrepreneur** is a person who has possession of a new enterprise, venture or idea and assumes significant accountability for the inherent risks and the outcome.
- ❖ An entrepreneur is "one who undertakes an enterprise, especially a contractor, acting as intermediately between capital and labour."

Some facts about entrepreneurs and entrepreneurship:

- ❖ **E:** Examine needs, wants, and problems to see how they can improve the way needs and wants are met and problems overcome.
- ❖ **N:** Narrow the possible opportunities to one specific "best" opportunity.
- ❖ **T:** Think of innovative ideas and narrow them to the "best" idea.
- ❖ **R:** Research the opportunity and idea thoroughly.
- ❖ **E:** Enlist the best sources of advice and assistance that they can find.
- ❖ **P:** Plan their ventures and look for possible problems that might arise.
- ❖ **R:** Rank the risks and the possible rewards.
- ❖ **E:** Evaluate the risks and possible rewards and make their decision to act or not to act.
- ❖ **N:** Never hang on to an idea, no matter how much they may love it, if research shows it won't work.
- ❖ **E:** Employ the resources necessary for the venture to succeed.
- ❖ **U:** Understand that they will have to work long and hard to make their venture succeed.
- ❖ **R:** Realize a sense of accomplishment from their successful ventures and learn from their failures to help them achieve success in the future.

## **1.6 Importance of Entrepreneurship Development**

The word 'Entrepreneurship' is very often confused with the word 'Entrepreneur'. They look alike but carry different meanings. Entrepreneurship is nothing but all those activities which are to be undertaken by an entrepreneur. The prevailing socio, political and economic activities act as a propelling force for the aspiring personalities to become entrepreneurs. Entrepreneurship development is the outcome of the entrepreneurs. In other words, the entrepreneurs give birth to entrepreneurship. This statement is partially true because certain activities of the entrepreneurs are due to the existing policies and programmes of the Central as well as the state governments and not only by the entrepreneurs themselves.

Under such circumstances, it is not the entrepreneurs who give birth to entrepreneurship. Instead, it is the existing entrepreneurship development programmes that give birth to entrepreneurs. The emergence of entrepreneurs and the level of entrepreneurship development are also the far reaching changes that are taking place in the social and political activities rather than changes taking place in the economic activities.

Entrepreneur cannot emerge from the vacuum. Entrepreneurship development depends upon the environment (both external and internal) within which the entrepreneurs have to do their business. Entrepreneurs are closely associated with the existing as well as the past entrepreneurial activities of the society. Business opportunities are identified from the social, political and economic crisis and in turn these crisis become the favourable climate for the entrepreneurs to innovate new business ventures. From this perspective, it is true that entrepreneurial activities are the resultant efforts of the prevailing entrepreneurship development programmes.

On the other hand, entrepreneurs keenly observe the society and its economic activities and try to elicit innovative business opportunities. They try to make use of the modern technology and manufacture new products which are hitherto unknown to the market and induce the consumers to buy them and thereby improving their standard of living. It is possible for entrepreneurs to find new market, new product and introduce a new form of organization. Therefore, the entrepreneurship development is due to the innovative thoughts and actions of the entrepreneurs. Thus the term entrepreneur and entrepreneurship are different and complementary with each other. Let us see the need and scope of entrepreneurship development in the forthcoming pages.

## **1.7 Functions of an Entrepreneur**

An entrepreneur is expected to perform the following functions.

### **1. Risk Absorption**

The entrepreneur assumes all possible risks of business. A business risk also involves the risk due to the possibility of changes in the tastes of consumers, techniques of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialize, the entrepreneur has to bear the loss himself. Thus, Risk-bearing or uncertainty-bearing still remains the most function of an entrepreneur. An entrepreneur tries to reduce the uncertainties by his initiative, skill and good judgment.

### **2. Formulate Strategic Business Decisions**

The entrepreneur has to decide the nature and type of goods to be produced. He enters the particular industry which offers from the best prospects and produces whatever commodities he thinks will pay him the most employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, its location techniques of production and does everything that is needed for the development of his business.

### **3. Execute Managerial Functions**

The entrepreneur performs the managerial functions though the managerial functions are different from entrepreneurial functions. He formulates production plans, arranges finance, purchased, raw material, provides, production facilities, organizes sales and assumes the task of personnel management. In a large establishment these management functions are delegated to the paid managerial personnel.

### **4. Adopt Innovation Function**

An important function of an entrepreneur is “Innovation”. He conceives the idea for the improvement in the quality of production line. He considers the economic inability and technological feasibility in bringing about improve quality. The introduction of different kinds of Electronic gadgets is an example of such an

innovation of new products. Innovation is an ongoing function rather than once for all, or possibly intermittent activity.

## **1.8 QUALITIES OF ENTREPRENEUR**

Being an entrepreneur is about more than just starting a business or two, it is about having attitude and the drive to succeed in business. All successful Entrepreneurs have a similar way of thinking and possess several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field.

All successful entrepreneurs have the following qualities:

### **1. Inner Drive to Succeed**

Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

### **2. Strong Belief in themselves**

Successful entrepreneurs have a healthy opinion of them and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often be seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

### **3. Search for New Ideas and Innovation**

All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

### **4. Openness to Change**

If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

### **5. Competitive by Nature**

Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self-imposed high standards is to compete with other successful businesses.

### **6. Highly Motivated and Energetic**

Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self-motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

### **7. Accepting of Constructive Criticism and Rejection**

Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline. The great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

## **1.9 Nature of Entrepreneur**

### **1. Facilitating Character**

An entrepreneur must build a team, keep it motivated, and provide an environment for individual growth and career development. -

## **2. Self-Confidence**

Entrepreneurs must have belief in themselves and the ability to achieve their goals.

## **3. Work with Vision and Mission**

An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.

## **4. High Degree of Endurance**

Success of an entrepreneur demands the ability to work long hours for sustained period of time.

## **5. Trouble Shooting Nature**

An entrepreneur must have an intense desire to complete task or solve a problem. Creativity is an essential ingredient.

## **6. Initiative and Enterprising Personality**

An entrepreneur must have initiative, accepting personal responsibility for actions, and above all make good use of resources.

## **7. Goal Setter**

An entrepreneur must be able to set challenging but realistic goals.

## **8. Calculated Risk-Taking Ability**

An entrepreneur must be a moderate risk-taker and learn from any failures.

### **1.10 Characteristics of Successful Entrepreneurs**

Entrepreneurs are different from each other, but successful entrepreneurs tend to share certain characteristics. Not all of them have developed each of the following to the same degree, but they tend to have developed most of them to some degree. Here are some common characteristics of successful entrepreneurs.

#### **Entrepreneurs tend to:**

- ❖ Be passionate about achieving their goals

- ❖ Have a spirit of adventure (in fact, the word "adventure" is derived from the latin word meaning "to venture")
- ❖ Have a strong need to achieve and seek personal accomplishment
- ❖ Be self-confident and self-reliant
- ❖ Be goal-oriented
- ❖ Be innovative, creative, and versatile
- ❖ Be persistent
- ❖ Be hardworking and energetic
- ❖ Have a positive attitude
- ❖ Be willing to take initiative
- ❖ Have a strong sense of commitment

**An eye for opportunity:** Many entrepreneurs start by finding a need and quickly satisfying it. **Independence:** Even though most entrepreneurs know how to work within the framework for the sake of profits, they enjoy being their own boss.

**An appetite for hard work:** Most entrepreneurs start out working long, hard hours with little pay.

**Self-confidence:** Entrepreneurs must demonstrate extreme self-confidence in order to cope with all the risks of operating their own business.

**Discipline:** Successful entrepreneurs resist the temptation to do what is unimportant or the easiest but have the ability to think through to what is the most essential.

**Judgment:** Successful entrepreneurs have the ability to think quickly and make a wise decision. **Ability to accept change:** Change occurs frequently when you own your own business, the entrepreneur thrives on changes and their businesses grow.

**Make stress work for them:** On the roller coaster to business success the entrepreneur often copes by focusing on the end result and not the process of getting there.

**Need to achieve:** Although they keep an "eye" on profits, this is often secondary to the drive toward personal success.



**Focus on profits:** Successful entrepreneurs always have the profit margin in sight and know that their business success is measured by profits. Is this your profile or would you rather do your job, pick up your paycheck and leave the headaches to someone else? Most of us, quite easily, choose the later.

### **1.11 Types of Entrepreneurs**

Entrepreneurs are classified as under different heads as given below. This helps the potential entrepreneurs to choose his own nature and style of entrepreneurship.

#### **I. According to the Type of Business**

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

##### **1. Business Entrepreneur**

Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade.

##### **2. Industrial Entrepreneur**

Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

### **3. Corporate Entrepreneur**

Corporate entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking. A corporate undertaking is a form of business organization which is registered under some statute or Act which gives it a separate legal entity.

### **4. Agricultural Entrepreneur**

Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. According to the use of Technology.

### **5. Technical Entrepreneur**

A technical entrepreneur is essentially an entrepreneur of “Craftsman type”. He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering services.

### **6. Non-technical Entrepreneur**

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

### **7. Professional Entrepreneur**

Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established.

## **II. According to Motivation**

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his power thus satisfying his ego.

### **Pure Entrepreneur**

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.

#### **1. Induced Entrepreneur**

Induced entrepreneur is one who is being induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the entrepreneurs are induced entrepreneurs who enter business due to financial, technical and several other several other provided to them by the state agencies to promote entrepreneurship.

#### **2. Motivated Entrepreneur**

New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new product 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 and enlarged customer network.

#### **3. Spontaneous Entrepreneur**

These entrepreneurs start their business out of their natural talents and instinct. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

#### **4. Growth Entrepreneur**

Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has substantial growth prospects.

#### **5. Super-Growth Entrepreneur**

Super-growth entrepreneur are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

### **III. According to Stages of Development**

#### **1. First-Generation Entrepreneur**

A first generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

#### **2. Modern Entrepreneur**

A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

#### **3. Classical Entrepreneur**

A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

#### **4. Innovating Entrepreneurs**

Innovating entrepreneurship is characterized by aggressive assemblage of information and analysis of results, deriving from a novel combination of factors. Men/women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services, by changing their utility, their value, and their economic characteristics, into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even reorganization of an existing enterprise.

### **5. Imitative Entrepreneurs:**

Imitative entrepreneurship is characterized by readiness to adopt successful innovations by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

### **6. Fabian Entrepreneurs**

These categories of entrepreneurs are basically running their venture on the basis of conventions and customary practices. They don't want to introduce change and not interested in coping with changes in environment. They have all sorts of inhibitions, shyness and lethargic attitude. They are basically risk aversor and more cautious in their approach.

### **7. Drone Entrepreneurs**

Entrepreneurs who are reluctant to introduce any changes in their production methods, processes and follow their own traditional style of operations. Though they incur losses and loses their market potential, will not take any effort to overcome the problem. Their products and the firm will get natural death and knockout.

### **8. Forced Entrepreneurs**

Sometimes, circumstances made many persons to become entrepreneurs. They do not have any plan, forward looking and business aptitude. To mitigate the situational problem, they are forced to plunge into entrepreneurial venture. Most of the may not be successful in this category due to lack of training and exposure.

## **1.12 CONCEPTS OF ENTREPRENEURIAL TRAITS**

The three prevailing concepts of entrepreneurship are:

### **1. Psychological Traits**

Entrepreneurship development is due to the ability of the individuals' urge to achieve something in their life. This concept was developed by McClelland. According to him individuals have psychological urge to achieve something new. Of course the degree of urge varies from one individual to another. Those who have high degree of urge to achieve in their life become entrepreneurs and all the activities enabling them to fulfill their urges are called entrepreneurship. McClelland's research results reveal that the entrepreneurship and its development are the results of a combination of three needs of individuals viz.

- Low need for achievement.
- High need for power and
- Low need for affiliation.

### **2. Sociological Traits**

Entrepreneurship development is also due to the sociological traits of the individuals living in a particular place. Certain individuals would like to attain status in the society by means of setting up of a new business or industry. However, they are allowed to act within the constraints of the cultural norms and religious moves that are customary in the society.

### **3. Economic Factors**

Apart from the psychological and sociological factors, entrepreneurship development is also due to the existing economic activities of the state where the entrepreneurs live. Individuals learn from the existing economic activities as how best to equip themselves for meeting the future challenges. They collect adequate economic and technical information and decide as how best to introduce new business that suits to the expectations of the Government and its revised economic policies. Thus, the concept of entrepreneurship is very is widely changing and entrepreneurship and its development is said to be in existence so long as the humankind are in existence and the spheres of entrepreneurship activities are getting multiplied every now and then due to the changes that have been taken place in the liberalization, Privatization, and Globalization (LPG) era.

### **Ascertain the demand and Supply of Entrepreneurs**

- ❖ It is true that the economic growth depends upon the existence of the technical progress. The level of technical progress in turn depends upon the existence of the entrepreneurs. In other words, the economic growth is the resultant effect of the existing as well as future demand for and supply of entrepreneurs. Disequilibrium between these two affects the economic growth.
- ❖ Excess supply of entrepreneurs over demand leads to exploitation of natural resources beyond the required level. Of course it leads to ‘super development’.
- ❖ This is one side of argument. The other side of the argument is how to measure the excess supply. If the measure it with the help of the variable ‘development’, we can say that excess supply is found in all the industrially advanced countries. In real life, what is advanced to-day in industrially advanced countries becomes a common phenomenon tomorrow in all other developing and less developed countries.
- ❖ If such is the case, it is proved that excess supply of entrepreneurs is only an imagination and it will never become true. In other words the demand for entrepreneur is a constant factor and is in existence for ever. The supply of

entrepreneurs could be enhanced through motivation. As propounded by McClelland, any society with generally high level of achievement will produce more real entrepreneurs who can accelerate the growth of the economy. Max Weber suggested that entrepreneurship is the outcome of the existing social conditions of the society. He was of the opinion that the entrepreneurs' personality has been determined and shaped by the existing social customs and values of the society. The living conditions of the society have been influenced by the existing cultural and religious norms, economic status of the people, their castes and inter group relations.

- ❖ However it has been observed from the history that achievement of individuals is always greater than the achievement of groups. Entrepreneurship development too could be achieved more by individuals.

### **1.13 Entrepreneurial Culture**

“Culture is one of the most precious things a company has,” said Herb Kelleher, Founder, Southwest Airlines. “So you must work harder on it than anything else.” For the entrepreneurial business, its culture begins from day one. The culture is a reflection of the values the entrepreneur brings into the business.

Culture is important for an entrepreneurial venture because it is the mechanism that institutionalizes the values of its founders. Culture serves to socialize new employees. It helps them understand how they should treat the customers, how they should treat each other, how they should act in their jobs, and how to generally fit in and be successful within the business.

If managed properly, culture also improves the performance of the business. Culture is an important part of the overall strategy of the business and helps ensure a growing organization will continue to meet the expectations of customers that were established by the entrepreneur during the early start-up of the venture.

For many businesses their success has been built on the entrepreneurial



nature of the business. Since it is important to keep the entrepreneurial nature of the business, as that is what has gotten the business this far, it is important to create a culture of entrepreneurship.

“Building a culture that encourages autonomy, risk-taking, and entrepreneurial behavior is challenging,” said Jennifer Prosek, CEO of CJP Communications and the author of *Army of Entrepreneurs: Create an Engaged and Empowered Workforce for Exceptional Business Growth*. “For companies that want to out-think and out-pace the competition, an entrepreneurial culture isn't optional: it's an absolute necessity.”

According to Prosek, the key to unleashing that creative energy is to create an entrepreneurial culture based on four pillars.

1. **Authenticity** -- Demonstrate your sincerity by being enthusiastic about entrepreneurial strategies and actions pursued by the business.
2. **Commitment to People** – “An entrepreneurial culture is based on the idea that each individual can be a powerful force for change in the organization,” said Prosek. Support the professional development of your staff, celebrate exceptional work, and don't forget to have fun.
3. **Commitment to the Business** -- Align an individual's interests with those of the business. “At my firm, we have a program called Commission for Life™,” explains Prosek, “Which encourages new-business generation: Anyone who books a meeting that results in a new client gets 5 percent of the revenue for the life of the business.”
4. **Continuous Effort** -- The work of building a company’s culture never ends.

Sustaining an entrepreneurial culture starts with who you hire. It is essential to carefully screen prospective employees to ensure that they will fit within your culture. An entrepreneurial culture is also sustained by your reward system, by the

autonomy and respect you give to your employees and by consistent communication about your ongoing entrepreneurial vision for the company.

Creating an entrepreneurial culture creates a business that will continue to grow by adapting to change and by actively pursuing new opportunities in the market

#### **1.14 PROMOTING AN ENTREPRENEURIAL CULTURE WITHIN THE COMMUNITY**

The conditions required for establishing an Entrepreneurial Culture are:

**1. Identification and promotion of Role Models:** Women entrepreneurs, for example the ladies who lost their jobs in the textile sector and created ‘Charmin Sud’, a rural women entrepreneur partnership. They came on television to explain how being laid off from an ailing textile industry was for them a blessing in disguise. It allowed them to unveil their entrepreneurial potential and leadership abilities.

**2. Role of media:** For instance, in the promotion of Entrepreneurship as a business model. Until recently, the local TV ran a weekly documentary: ‘Portrait d’Elle’, in which a local women entrepreneur was portrayed as to her new place in society as an economic (and social) agent. Similarly, a few newspapers reserve a page regularly to promote entrepreneurial initiatives.

**3. The Education system:** Entrepreneurship modules in the curriculum at different levels. Entrepreneurship education is now beginning to be anchored in tertiary education curricula. We have now moved past the old paradigm whereby entrepreneurship was to be taught only in Business faculties. The present Super GEM is a living example of the new paradigm whereby the subject is available to all undergraduates from all fields. An IT student, a Fashion & Design student and all the others in fact, need to know the basic business and entrepreneurship skills that are required to start a business or to act entrepreneurially, to lead and innovate in their employer organizations.

**4. Period of Incubation:** Entrepreneurship development programmes spread over a period of time (and not one off initiatives). Initiatives like “La semaine de l’Entrepreneuriat” are beneficial for general awareness, but the enthusiasm soon dies away after the caravan has left. What is truly beneficial for culture change is a planned process that uses all the avenues mentioned in this section over a longer period with set objectives and performance targets. In Finland, entrepreneurship and entrepreneurial culture developed as a result of a planned ‘Entrepreneurship decade’, that is, ten years of cultural change. This can take the form of entrepreneurship education starting at primary or secondary education level, targeting rural women with a Microcredit scheme and so on.

**5. Participation of leaders (political, business, opinion):** Political and religious leaders to promote entrepreneurship as a solution to current economic problems. As mentioned earlier under ‘leadership’, a strong, charismatic leadership is required to transform a community. To change the mentality from ‘qualifying to get a government job’ to ‘taking charge of oneself by being self-employed’ requires psychological ‘push’ that can be facilitated by people who can influence the community. The first people to come to our mind are the political, social and religious leaders.

## **1.15 12 WAYS TO FOSTER A MORE ENTREPRENEURIAL CULTURE**

### **1. Hire Aspiring Entrepreneurs**

It's no coincidence that aspiring entrepreneurs are attracted to the startup environment. These types are eager to gain experience and tend to see opportunities in markets or the industry where others don't. Bring them in, and empower them to flex their entrepreneurial muscles within your organization.

### **2. Make Employees Feel like Partners**

Give everyone in your company equity, and motivate them to view your company as their company. You really need to believe that everyone at your company is your partner and treat them that way.

### **3. Empower and Encourage Employees**

Empower your employees with more responsibilities, and encourage them to make decisions on their own. Encourage creativity, reward your employees when they make good business decisions and use their mistakes as learning opportunities.

### **4. Be Open to Micro-failures**

I try to create an environment in which employees know that I am open to micro-failures in the macro-pursuit of success. If people are afraid to take risks, then we aren't going to grow as quickly or smartly as possible. But people don't always believe that making mistakes is OK. I strive to give them proof that it is, so they can let go of any fears and try new ways of getting the job done.

### **5. Give Incentives to Employees**

What's in it for them? If they're proactive, go the extra mile and really impact your company positively -- what do they get out of it? Incentives can include raises, bonuses (time off, a paid holiday, etc.), stock options, promotions and even public recognition of one's efforts.

### **6. Lead by Example**

You need to lead by example, take a few risks, and then let those ideas materialize. In some cases, your risks will fail; you need to show your team that failure is OK. They should embrace it, fail fast and get back on it. The only way your employees will feel like taking risks is if they know that failing will not be looked at in a bad light. Just make sure each failure only happens once.

### **7. Give Employees a Voice**

By giving employees voices, listening to their ideas and implementing them, you can encourage a culture of "intrapreneurs." Seeing that they are an integral part of the company -- whether it's saving money by using a different vendor or creating a new process to streamline production -- will give them pride in the company.

### **8. Make It Safe to Share Ideas**

Create a culture where new ideas are welcomed and not shut down. You want every employee to feel like she can make a difference with her idea rather than depend on the founder or management team for the next big idea. Encourage your team to share often and openly to encourage intrapreneurship.

### **9. Give Employees Ownership**

To create a culture of intrapreneurs, you have to give employees ownership of projects and follow their recommendations. We encourage an entrepreneurial mindset by having employees take turns being "Sensei" and leading a professional development training session. Additionally, every employee is expected to take a project from start to finish every quarter.

### **10. Ask Them for Their Recommendation**

Nearly all employees can present information; rock stars will prepare a recommendation.

When team members bring back information, ask them, "What do you think?" You'll create a culture of thinking beyond the current step toward next steps and implications. It's the first step toward creating intrapreneurs.

### **11. Create a Startup Culture**

If you want to have intrapreneurs in your organization, you need to foster an atmosphere of entrepreneurship. This can be done through articles you share with the team, weekly meetings and, most importantly, mentorship. Creating a library of

books about entrepreneurship helps as well. If you create and promote the culture, the entrepreneurial spirit within your employees will be empowered.

## **12. Make Hires Draw an Owl**

There is a great Internet meme that we use as a hiring philosophy called "How to Draw an Owl." Step one: Draw two circles. Step two: Draw the rest of the owl. We need people who can self-direct and get things done, even if it isn't the way we'd ideally do it.

### **1.16 Difficulties Faced in Establishing an Entrepreneurial Culture**

- Ignorance: Where people fail to capture the important role of entrepreneurship, for instance, in poverty alleviation.
- Laziness: For example in communities who have got used to being assisted.
- Fear: Risk aversion
- Religious/Cultural constraints: Communities/societies where business and profit making are perceived as being against cultural/religious values.

### **1.17 Conclusion**

During this lesson, you have been encouraged to examine some important ideas about entrepreneurs and entrepreneurship, and perhaps to challenge some of your own preconceptions.

You looked at how one entrepreneurial individual went about creating a successful business venture at an early age, and how other entrepreneurs have made use of informal ties with family and friends. In doing so, you also considered the mixture of personal and social influences on entrepreneurial activity.

### **Questions**

1. What is Entrepreneur? Explain the functions of entrepreneur.
2. What is entrepreneurial development? State the importance of entrepreneurial development.

3. Explain the qualities of entrepreneur.
4. State the nature of entrepreneur.
5. What are the characteristics of entrepreneurs?
6. What are the types of entrepreneurs?
7. Explain the concept of entrepreneurial traits
8. What are the four pillars of entrepreneurial culture?
9. Promoting an entrepreneur culture within the community – Explain.
10. Explain the 12 ways to foster a more entrepreneurial culture.
11. What are Difficulties faced in Entrepreneurial Culture

## **CHAPTER – 2**

### **2.1 Introduction**

### **2.2 Entrepreneur, Enterprise and Entrepreneurship**

### **2.3 Definition of Intrapreneur**

### **2.4 Key Differences between Entrepreneur and Intrapreneur**

### **2.5 Differences between Entrepreneurship and Intrapreneurship**

### **2.6 Role of entrepreneur in economic growth**

## **2.7 Importance of Entrepreneur in economic development**

## **2.8 Conclusion**

# **ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT**

## **2.1 Introduction**

The concept of an entrepreneur is refined when principles and terms from a business, managerial, and personal perspective are considered. In almost all of the definitions of entrepreneurship, there is agreement that we are talking about a kind of behaviour that includes:

- Initiative taking,
- The organizing and reorganizing of social and economic mechanisms to turn resources and situations to practical account and
- Acceptance of risk or failure.

To an economist, an entrepreneur is one who brings resources, labour, materials, and other assets into combinations that make their value greater than before, and also one who introduces changes, innovations, and a new order. To a psychologist, such a person is typically driven by certain forces; the need to obtain or attain something, to experiment, to accomplish, or perhaps to escape the authority of others.

To one businessman, an entrepreneur appears as a threat, an aggressive competitor, whereas to another businessman the same entrepreneur may be an ally, a source of supply, a customer, or someone who creates wealth for others, as well as finds better ways to utilize resources, reduce waste, and produce jobs others are glad to get.

## **Entrepreneur Vs Entrepreneurship**

The major differences between these two terms are as follows.

Entrepreneurship is the function of seeking investment and production opportunity organising an enterprise to undertake a new production process, raising capital, arranging labour and raw materials, finding a site introducing a new



technique and commodities, discounting new sources for the enterprise. Entrepreneur is one who combines capital and labour for the purpose of production.

## **2.2 Entrepreneur, Enterprise and Entrepreneurship**

### **Entrepreneur**

The word entrepreneur literally came from French language meaning someone who undertakes an enterprise.

### **Enterprise**

The word enterprise is attached to self-propelled, usually self-made businessman who thinks about a venture, dreams it, starts it, works on it and grow with it.

### **Entrepreneurship**

Entrepreneurship could be defined as ability of an individual or a group of individual to introduce changes or innovate like introduction of a new product or service, opening of a new market and carrying out a new organisation. These are indeed the early American thoughts an Entrepreneurship. Entrepreneur is a man who invests and risks time, money and effort to start a business and make it successful.

Any undertaking / venture involving some economic activity which requires risk taking ability, resources mobilization efforts, keen planning and organisation and effective decision making skill in all types of decision situations. It has got a separate entity and perpetual successions. It consists of people who work together mainly for production and selling of goods and services so as to make some economic gains. It may be of private or public, small or large, domestic or international.

Thus Entrepreneur refers a person, entrepreneurship indicates the process adopted by him and enterprise is the work place where in he adopts his entrepreneurial skilled.

### **Intrapreneur**

“Intrapreneurship is the entrepreneurship within an existing organization”

### **2.3 Definition of Intrapreneur**

An intrapreneur is nothing but an entrepreneur within the boundaries of the organization. An intrapreneur is an employee of a large organization, who has the authority of initiating creativity and innovation in the company's products, services and projects, redesigning the processes workflows and system with the objective of transforming them into a successful venture of the enterprise.

### **2.4 Key Differences between Entrepreneur and Intrapreneur**

- ❖ An entrepreneur is defined as a person who establishes a new business with an innovative idea or concept. An employee of the organization who is authorized to undertake innovations in product, service, process, system etc, is known as intrapreneur.
- ❖ An entrepreneur is intuitive in nature, whereas an intrapreneur is restorative in nature.
- ❖ An entrepreneur uses his own resources, i.e, man, machine, money etc. while in the case of an intrapreneur the resources are readily available as they are provided to him by the company.
- ❖ An entrepreneur raises capital himself conversely an intrapreneur does not need to raise funds himself rather it is provided by the company.
- ❖ An entrepreneur works in a newly established company. On the other hand an intrapreneur is a part of an existing organisation.
- ❖ An entrepreneur is his own boss, so he is independent to take decisions. As opposed to intrapreneur, who works for the organisation, he cannot take independent decisions.
- ❖ The entrepreneur works hard to enter the market successfully and create a place subsequently. In contrast to intrapreneur, who works for organization wide change to bring innovation, creativity and productivity.

## 2.5 Differences between Entrepreneurship and Intrapreneurship

| <b>Points of difference</b> | <b>Intrapreneurship</b>   | <b>Entrepreneurship</b>  |
|-----------------------------|---|--|
| Definition                  | Intrapreneurship is the entrepreneurship within an existing organization                        | Entrepreneurship is the dynamic process of creating incremental wealth |
| Core objective              | To increase competitive strength and market sustainability of the organization.                 | To innovate something new of socio economic value.                     |
| Primary motives             | Enhance rewarding capacity of the organization and autonomy.                                    | Innovation, financial gain and independence.                           |
| Activity                    | Direct participation, which is more than delegation of authority.                               | Direct and total participation in the process of innovation.           |
| Risk                        | Hears moderate risk   | Bears all types of risk  |
| Status                      | Organizational employee expecting freedom in work.  | Free and sovereign person doesn't bother with status.                  |
| Failure and mistakes        | Keeps risky projects secret unless it is prepared due to high concern for failure and mistakes. | Recognizes mistake and failures so as to take new innovative efforts.  |
| Decisions                   | Collaborative decisions to execute dreams.  | Independent decisions to execute dreams.                               |
| Family heritage             | May not have or a little professional post.   | Professional or small business family heritage.                        |
| Relationship with others    | Authority structure delineates the relation.  | Basic relationship based on interaction and negotiation.               |

|                          |  |  |
|--------------------------|--|--|
| Time orientation         | Self-imposed or organizationally stipulated time limits. | There are no time bound.                                 |
| Focus of attention       | Technology and market.                                   | Increasing sales and sustaining competition.             |
| Attitude towards destiny | Follows self-style beyond given structure.               | Adaptive self-style considering structure as inhabitants |
| Attitude towards destiny | Strong self-confidence and hope for achieving goals.     | Strong commitment to self-initiated efforts and goals.   |
| Operation                | Operates from inside the organization.                   | Operates from outside the organization.                  |

## 2.6 Role of entrepreneur in economic growth

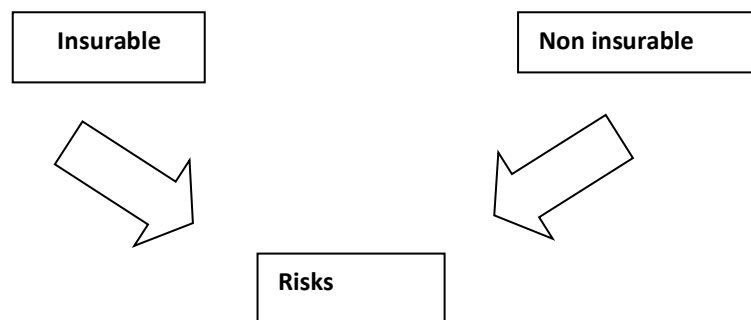
- ❖ The position of the entrepreneur in modern production is like that of the director of a play.
- ❖ The entrepreneur directs production and he must do whatever is necessary for its success.

**Role in modern economic development has at least three aspects.**

### a) The entrepreneur co-ordinates the other factors of production

Co-ordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technical devices, division of labour, reduction of waste etc.

### b) The entrepreneur takes risks



**c) The entrepreneur innovates**

- ❖ The introduction of a new good or a new quality of a good.
- ❖ The introduction of a new method of production
- ❖ The opening of a new market
- ❖ The conquest of a new source of supply of raw materials.
- ❖ The carrying out of a new organization of any industry.

**2.7 Importance of Entrepreneur in economic development**

Entrepreneurship is the dynamic need of a developing nation and sustains the process of economic development in the following ways

- ❖ Employment generation
- ❖ National income
- ❖ Dispersal of economic power
- ❖ Balanced regional development
- ❖ Harnessing locally available resources and entrepreneurship.
- ❖ Reducing invest and social tension amongst youth.
- ❖ Innovations in enterprises
- ❖ Improvement in living standards
- ❖ Economic independence

**2.8 Conclusion**

A positive interaction between growth and entrepreneurship is grounded on the innovation activity that entrepreneurs convey. when he considers that one of the two important axes in the field of entrepreneurship is the change an individual undergoes when he introduces a value that is more or less new to the project he is developing. But this displacement is mainly apparent through the steps he takes to

meet the actors who hold the resources necessary for the entrepreneurial project, including resources that will be useful for its development.

## **Questions**

1. Distinguish between entrepreneurship and intrapreneurship
2. Difference between entrepreneurship and Entrepreneur.
3. What are the role of economic growth?
4. Explain the importance of entrepreneur in economic growth.

## **CHAPTER – 3**

### **3.1 Introduction**

### **3.2 Classification of Environment**

### **3.3 Environmental Factors**

### **3.4 Conclusion**

## **ENTREPRENEURIAL ENVIRONMENT**

### **3.1 Introduction**

“Suitable Environment and intuition in grasping the essential facts promotes entrepreneurship”

—Schumpeter

Entrepreneurial venture of any sort/nature is being influenced by complex and varying mixture of financial, institutional, cultural and personality factors. Economic system and other conditions in the environment determine the success of commercial venture. Environment refers to the totality of all factors which are external and beyond the control of the business enterprise. It determines how entrepreneurship control and manage the unit. The entrepreneurial performance of an enterprise is influenced by the value system of the society, the rules and regulations made by the government, the monetary policies of the capital market, foreign investments etc. If environment changes there will be a change in the entrepreneurial performance also. Thus, the healthy environment promotes the entrepreneurship in a larger scale by facilitating the business operations thereby contributing to the growth of the unit.

### **3.2 Classification of Environment**

Environmental factors are mostly dynamic in nature except few factors which are of static nature. Mostly these factors can be conceptualized and quantified. Sometimes they could be mentioned only in qualitative terms.

On the basis of its variability character with reference to point of time, environment may be past, present and future.

On the basis of decision making situation it may be classified into Market and Non-Market environment. If the business decisions of a business unit are influenced by the market factors such as, demand, supply, competition, price etc. the environment is said to be market environment. On the other hand, when the Government, Law and Social customs and Conventions dominate entrepreneurial decisions it is said to be Non-market environment.

Environment may be grouped in to two, viz, Economic and Non-Economic environment. Environment formed by the economic factors like fiscal policy, industrial policy, physical control of price-income, the economic system that operates, the stage of economic development refers to economic environment.

Then the non-economic environment refers to social, political, legal, educational and cultural factors pertaining to business operations.

Thus, the different facets of entrepreneurial environment on the basis of factors which form that situation are depicted in the following telescopic view of the Facets of Entrepreneurial Environment.

### **3.3 ENVIRONMENTAL FACTORS**

It is true that the entrepreneurs must have come from diverse economic, social and geographical backgrounds which interlace influence entrepreneurial spirits. This will enhance the entrepreneurial performance. The various factors which influences the entrepreneurship may be categorized into two, viz, Internal and External environment factors.

#### **1. Internal Factors**

The internal environmental factors are mainly the environment in which entrepreneurs are born and brought up and work. Internal factors are those which will stimulate the entrepreneurs from within to take up entrepreneurial venture. Some of them are:

- ❖ Strong desire of entrepreneurs to do something independently in life.
- ❖ Technical know-how or manufacturing experiences acquired by them.
- ❖ Business experience in the same or related line.
- ❖ Family background including size, type and economic status of family.
- ❖ Occupational origins of the entrepreneurs. .

Factors are the main springs of action in entrepreneurs. In order to satisfy their strong desire to do something independently in life, highly motivated persons take a plunge in to industrial activity' regardless of any other considerations. But, many a time it is the: compulsion rather than the ambition that leads the man to success. The reasons that might have compelled the entrepreneurs in putting them on the road to



industry are: The internal various other internal environmental factors that facilitate the emergence of entrepreneurship are:

- ❖ Success stories of entrepreneurs
- ❖ Previous experience in manufacturing
- ❖ Previous employment in industry
- ❖ Property inherited
- ❖ Property acquired
- ❖ Encouragement of family members
- ❖ Encouragement of friends and relatives
- ❖ Acquire or inherited technical and professional skill

## **2.External Environment**

The success of entrepreneurship in a region at any point of time depends on the very many external environmental factors. These factors influence the entrepreneurial operations and ultimately determine the effectiveness of entrepreneurial performance also. These environmental factors can be grouped into:

## **3.Economic Environment**

The different economic environmental factors which influence/ inhibit the entrepreneurship are: Structure of the economy, Industrial Policy, Agricultural” Policy, Growth pattern of National income, G.D.P., Savings and capital formation in the country. Besides that, Balance of trade and balance of payments, trade and tariff policy etc.

## **4.Legal Environment**

Entrepreneur should know what the prevailing legal environment is by knowing the latest position in legal enactments relating to various aspects of entrepreneurial venture. Such as formation of the unit, collaboration, foreign

exchange, industrial dispute, labour management, social security benefits, consumer protection etc.

### **5. Political Environment**

The working political system in a country influences the entrepreneurial growth by designing and implementing various policy matters pertaining to promotion of entrepreneurship. Hence entrepreneurs and industrialists should have representatives on various government bodies at all levels of policy formulation and planning.

### **6. Socio-Cultural Environment**

In the modern days a suitable entrepreneurial culture must be created by developing healthy work environment and modern attitudes towards work giving social recognition etc. These factors will give psychological stimulus which in turn promotes innovation, inspiration, ethics and values which are very essential for a successful entrepreneur.

The external environmental factors are:

- ❖ Financial assistance from institutional sources.
- ❖ Accommodation in industrial estates.
- ❖ Provision of consultancy to services on technical
- ❖ Market and financial aspects.
- ❖ Provision of subsidies of different kinds.
- ❖ Arranging the institutional support for marketing the products/ services.
- ❖ Attitude of the Government to help new units.
- ❖ Encouraging the co-ordination between larger and smaller firms.
- ❖ Providing necessary infrastructural facilities continuously.

External environment determine the entrepreneurship in many occasions. Hence presence of conducive business environmental climate is imperative for entrepreneurship growth. External environment facilitates various functional areas of business enterprise thereby promote entrepreneurship. The various factors that

impede the growth entrepreneurship arose mainly due to external environment. Some of them are:

- ❖ Changes in governmental policy
- ❖ Political instability or hostile government attitude
- ❖ Improper co-ordination among different government agencies. Undue delay and corruption in giving concurrences for various purposes
- ❖ Poor-infrastructural facilities such as supply of power, materials, finance etc.
- ❖ Rise in cost of inputs.
- ❖ Unfavourable market fluctuations etc.

## **7. Business Environment**

The emergence and development of entrepreneurship is not a spontaneous one but a dependent phenomenon of economic, social, political, psychological factor often nomenclature as supporting condition to entrepreneurship development. These factor may have both positive and negative influence on the emergence of entrepreneurship. Negative influence create inhabiting milieu to the emergence of entrepreneurship. For analytical purpose this conditions factor are grouped and discussed under two categories (i.e.) Economic factor and non-economic factor

### **I. ECONOMIC FACTOR**

#### **1. Capital**

Capital is one of the most important prerequisites to establish an enterprise. If only a capital is available, entrepreneur can bearing land, machine and raw material and together produce goods 'Capital is regarded as lubricants/fuel to the process of production' Increase in capital investment, capital output ratios tends to increase. This result in increase in profit.

Capital -----output ratio-----Profit

This suggests that capital supply increases entrepreneurship also increases.

#### **2. Labour**

Quantity rather quality of labour influence the emergence of entrepreneurship. Cheap labour is often less mobile or even immobile. Adam Smith considers division of labour as an important element in economic development. According to him division of labour as an important element it depends. Upon the size of the market leads to improvement in the productive capacities of labour due to an increase in the dexterity (i.e.) improvement in skills, grace and cleverness) of labour. It appears that labour problem clearly does not prevent entrepreneurship from emerging.

### **3.Raw material**

The necessity of raw material hardly needs any emphasis for establishing any industrial activity. In the absence of raw material neither any enterprises nor entrepreneur can emerge. In some cases "technological innovations can compensate for raw material inadequate. The Japanese case for example, witness that " Lack of raw material clearly does not prevent entrepreneurship from emerging but influence the directions in which entrepreneurship took place". In fact, supply of raw materials is not influenced by themselves but became influential depending upon the opportunity conditions.

The more favourable these conditions are, the more likely is the raw material to have its influence on entrepreneurial emergence.

### **4.Market**

Potential of the market constitutes the major determinant of provable rewards from entrepreneurial function. The proof of pudding lies in eating, the proof of all production lies in conceptions (i.e.) marketing. Both size and composition of market influence entrepreneurship in their own ways. Monopoly in a particular product in a Particular market becomes influential for entrepreneurship than a competitive market. Lands hold the opinion that improvement in transportation are more beneficial to heavy industry than to light industry because of their influence on the movement of raw materials.

Wilken claims that instances of sudden rather than 'Gradual improvement in market potential provide the clearest evidence of the influence of entrepreneurship. Germany and Japan as the prime examples where rapid improvement in market was followed by rapid entrepreneurial appearance.

## **II. NON - ECONOMIC FACTOR**

Sociologist and psychologist advocate that the influence of economic factor on entrepreneurial emergence largely depends upon the extends of non-economic factor (i.e) social and psychological in the society.

### **1.Social Conditions**

#### **i.Legitimacy of entrepreneurship**

The proponents of non-Economic factors gives emphasis to the relevance of a system of norms and values with in socio culture setting for the emergence of entrepreneurship. The social status of those playing entrepreneurial role has been considered one of the most important content of entrepreneur legitimacy. To increase the legitimacy of entrepreneurship scholar have purpose the need for change in the traditional values, which are assumed to be opposite to entrepreneurship.

"McClelland had also pointed out that a complete change may not be necessary for entrepreneurial appearance". Instead, they submit a re - interpretation of the traditional values or its synthesis with the newer values to increase entrepreneurial legitimacy.

#### **ii.Social mobility**

Social mobility involves degree of mobility, both social and geographical and the nature of mobility channel with in a system. "social mobility is crucial for entrepreneurial emergence is not unanimous". 'Average level of need achievement in a society is relatively high; one could expect a relatively high amount of ED in the society'.

To encourage the impact of motivation for achievement, many training programs are organized by the SIEI - Small Industries Extension training Institute.

The further postulates that with drawal of status of respect would give rise to four personality types:

1. Retreatist: he who continues to work in a society but remains different to his work and position.
2. Ritualist: he who adopts a kind of defensive behavior and acts in the way accepted and approved in his society but no hopes of improving his position.
3. Reformist: he is a person who foments a rebellion and attempts to establish a new society.
4. Innovator: he is a person who is creative individual and is likely to be an entrepreneur.

Hagen maintains that once status withdraws has occurred, the sequence of change information of personality is set in motion, he refers that 'Status with drawl takes a long period of time as much as 4 or 5 generations to result in the emergence of ED'.

### **Government Actions (Factors)**

Government by its actions or failure to act does influence both the economic and non-economic factor for entrepreneurship. Any interested government in economic development can help through its clearly expressed policies, promoting entrepreneurship, creating basic facilities, utilities and services providing incentives and concessions, providing good facilitative socio economic setting to minimize the risks for entrepreneur.'To conclude, in the societies where the government was committed to their economic development, entrepreneurship automatically nourishes'.

The fact remains that the various factors are observed in the preceding pages will cause emergence of entrepreneurship are integral, interlocking, mutually dependent and mutually reinforcing.

### **3.4 Conclusion**

Understanding the business environment and its components are very much essential for an entrepreneur. Environmental aspects are not of static in nature and hence watching the changes in the environment is immensely essential especially for the budding entrepreneurs. Thus, developing a healthy environment is a pre-requisite for growth of entrepreneurship.

### **Questions**

1. Explain the environmental factors.
2. What are the classifications of environment?
3. What is entrepreneurial environment?

## **UNIT - II**

### **CHAPTER – 4**

#### **4.1 Introduction**

#### **4.2 The evolution of Entrepreneurship**

#### **4.3 Characteristics**

#### **4.4 Historical development of entrepreneurs**

#### **4.5 Stages of evolution of entrepreneurship**

#### **4.6 Entrepreneurial promotion**

#### **4.7 Conclusion**

## **EVOLUTION OF ENTREPRENEURS**

### **4.1 Introduction**

This particular chapter begins with the definition and the proper introduction to entrepreneurship. The chapter stresses the importance historically of entrepreneurship. It provides a basic understanding of the beginning and the modern economic definitions.

To be a successful entrepreneur, an individual must be an independent thinker who is willing to take risks and to dare to be different. Personal initiative, ability to consolidate resources, management skills, and risk taking are just a few of the important qualities needed to be a successful entrepreneur.

The chapter continues to define and discuss ten specific myths associated with entrepreneurship. The myths are present because of the lack of research within this particular field. Also, the technology within this field is becoming more advanced and more widely known.

An individual's understanding may be increased by many approaches. Two specific approaches are "macro" and "micro" views. Within each view, there are three "schools of thought." According to the chapter, the "schools of thought" are considered to be a foundation for entrepreneurial theory.

Also, there are the process approaches: "integrative approach." The Integrative approach is built around the concept of input to the entrepreneurial process and outcomes from the entrepreneurial process, which can determine the entrepreneurial intensity. Entrepreneurial assessment approach involves qualitative, quantitative, strategic, and ethical assessments in regards to the entrepreneur, the venture, and the environment. The multidimensional approach provides fewer distinct categories, giving it a more specific or detailed process approach to entrepreneurship. The approach is divided into the individual, the environment, the organization, and the process.

Evolution of the term "entrepreneurship." The word "entrepreneur" is derived from the French "entre prendre," which means "to undertake." Thus, it began as a concept to identify one who undertakes to organize, manage, and assume the risks



of business.

## **4.2 The Evolution of Entrepreneurship**

- A. Taken from the French “entre prendre,” means “to undertake.”
- B. An entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these efforts.

## **4.3 Characteristics**

- 1. Personal initiative
- 2. The ability to consolidate resources
- 3. Management skills
- 4. A tendency toward autonomy and risk taking
- 5. Competitive
- 6. Goal-oriented behavior
- 7. Aggressiveness
- 8. Ability to employ human relations skills

## **4.4 Historical developments of entrepreneurs**

- 1. No single definition of entrepreneur exists.
- 2. Recognition of entrepreneurs dates back to eighteenth-century France.
- 3. Until 1950, the majority of definitions and references came from economists.
- 4. Robert C. Ronstadt said, “Entrepreneurship is the dynamic process of creating incremental wealth.”
- 5. In present day, the word entrepreneur has become closely linked with free enterprise and capitalism.
- 6. Entrepreneurs serve as agents for change, provide creative, innovative ideas for business enterprise, and help businesses grow and become profitable.

7. Entrepreneurs are considered heroes of free enterprise.
8. Many people regard entrepreneurship as “pioneership” on the frontier of business.

#### **4.5 STAGES OF EVOLUTION OF ENTREPRENEURSHIP**

The evolutionary process of entrepreneurship activities may be divided into the following broad stages:

**1. Hunting Stage:** - The primary stage of the evolution of the economic life of man was hunting stage. Wants were limited and very few in numbers. The family members themselves satisfied problems of food, clothing and shelter. Producers were the consumers also. Robinson Crusoe, living in the deserted island, satisfying his own requirements had no knowledge of business. People in some parts of Africa and India still lead this type of life. In this stage problems of production and distribution were not complexed since wants were simple and limited.

**2. Pastoral Stage:** - With the progress of mankind gradually mental understanding developed and people started realizing that instead of killing animals, they should breed and rear them. Thus cattle breeding encouraged the use of milk, and they had to think in terms of grazing areas for their cattle. The surplus milk, meat and other related products were spared of exchange. This stage can be termed as the first stage of economic development and the beginning of commerce.

**3. Agricultural Stage:** - In search of grazing areas, they further realized that they should grow plants as food for animals. They started testing some grain products and slowly developed a taste in plants and the land was used for cultivation. Groups of persons started living together on their agricultural fields, which were subsequently converted into small villages with their farms. Free exchange of goods was started and the activities were also divided to the extent of division of labor at the village level to complement the needs of each other. Initially each village was self-sufficient, but later they began small trading activities on barter basis.

**4. Handicraft Stage:** - In the agricultural stage, people started learning the use of cloth made of cotton products, and they developed the segments of the workers for different activities. Cottage scale setup was developed at the village level to nearby villages, and in exchange they brought requirements either to consume themselves or for their village friends. Since the demand for gold coins, silver coins, skin and hide etc increased the activities of cobblers, gold smiths, and blacksmiths, laborers also rapidly increased, and caste system was also formed on the basis of activities they did. Everybody selected their job according to their own choice and taste.

**5. Present Industrial Stage:-**The use of mechanical devices and the commonly acceptable form of monetary system accelerated the growth of entrepreneurship activities. The progress of science and the increase in the means of transportation and communication enabled to travel widely and the markets were developed in the country and abroad.

#### **4.6 Entrepreneurial promotion**

Most of the tips giving here are from my own area of expertise, which is marketing.

##### **1.Brand Image:**

The first thing to understand is that even if you, yourself, or your own business have a Brand in every sense of the word, you must be clear about the following: How do I position myself? What do I want people to say about me? What is the personality of my brand? What product or service is on offer? What sets me apart from the rest? Who is the target audience of my market?

The next part is to make an attractive visual image! So, you should also take care of that aspect: a logo, corporate colors, a good photo, stationery, etc. Find a specialist! It is worth investing a little about it as it will be your first impact.

##### **2. Well defined product or service :**

Take time to develop your product or service well, define the benefits you offer your customers, the advantages and characteristics. Define your processes and methodology of your work.

Study your direct (other entrepreneurs) and indirect competition (companies), research what they do, what they offer and how.

### **3. Material Sale**

There is material that I consider essential for an entrepreneur to start their sales efforts: Business cards that are attractive and original. Presentation of services or professional products, compete with different types of people. Invest in a good presentation; forget simple leaves in Word or Power Point. I would like a brochure for your business, your brand. Website, domain, and hosting service. One of the most economic and visible actions for independent entrepreneurs is a website. Invest in it professionally, do not do it on free platforms.

### **4. Recommendations**

You must understand that companies do business with people, i.e. hardly do business with people who do not know or recommend them. This is the most important face by an entrepreneur, no connections; no public relations will be a difficult sell part. Start by creating a list of all the people you know and can recommend their companies or acquaintances who require your services or products. Think of friends, family, colleagues, former bosses, etc.

### **5. Public relations**

Subscribe to business associations or chambers depending on your kind of market. You should look into them to build relationships, meet people, introduce yourself and offer your services. Take advantage of the breakfast, trainings and meetings.

### **6. Conferences**

Give free talks at various forums that go up your market. You should ideally feature in Universities, Associations and Chambers to offer lectures on subjects in which you are an expert. This will help you to meet new people and go positioning yourself as an expert in this area of knowledge.

## **7.Interviews and Articles**

Give interviews on media like radio and television approach these media and promote your experience.Ask them to call you for help in a program or event. You can also get closer to magazines or newspapers where you can offer to write notes or items of interest to the readers on your workspace.

## **8.Alliances**

Teamwork is always better than do it alone, look to independent entrepreneurs who want to partner with you, professionals that complement your services and you theirs. They can mutually promote and increase sales opportunities.

You can also get close to medium businesses that want to hire your services independently so that through them you get work (freelance). Think of these companies also as your potential customers.

## **9.Website**

As I said, this is an indispensable tool in your promotional efforts. Open a professional website; invest a little it will be worth in the end. I recommend you use the wordpress.org platform and purchase your domain and hosting with Bluehost. If you do not know much web design and have no budget to hire someone to the design, you can buy a template on sites like Monster and Temple make yourself. However, if you need to invest in a specialist is easy to design and optimize a website.

## **10.Blog**

If you enjoy writing or researching on the internet a blog is the best tool to generate traffic and online reputation. Let your potential customers know about your experiences, thoughts, methodology and work through what you write. Share valuable content related to your business, not just talking about that area of knowledge.

If you don't have much to write, you can create a newsletter and collect the most important news in the industry and offers from the website. Find people who

visit your site to subscribe to your blog, then it is essential to work with them: sell your services.

## **11.Social Media**

Social media is a very interesting and unbeatable tool for independent entrepreneurs, since entry is free and its impact can be huge if we use them wisely.

## **4.7 Conclusion**

An individual's understanding may be increased by many approaches. Two specific approaches are "macro" and "micro" views. Within each view, there are three "schools of thought." According to the chapter, the "schools of thought" are considered to be a foundation for entrepreneurial theory. Also, there are the process approaches: "integrative approach." The Integrative approach is built around the concept of input to the entrepreneurial process and outcomes from the entrepreneurial process, which can determine the entrepreneurial intensity. Entrepreneurial assessment approach involves qualitative, quantitative, strategic, and ethical assessments in regards to the entrepreneur, the venture, and the environment. The multidimensional approach provides fewer distinct categories, giving it a more specific or detailed process approach to entrepreneurship. The approach is divided into the individual, the environment, the organization, and the process.

## **Question**

1. What do you mean by entrepreneurship?
2. Explain the stages of evolution of entrepreneurship.

3. Explain the entrepreneurship promotion.

## **CHAPTER- 5**

### **5.1Introduction**

### **5.2 The general objectives**

### **5.3 Need and importance of entrepreneurial development training programme**

### **5.4 Stages in Entrepreneurial development programme**

### **5.5 Conclusion**

## **ENTREPRENEURIAL TRAINING**

### **5.1Introduction**

Entrepreneurship is about starting new business. Some people say that you are born an entrepreneur and that it cannot be taught. Many entrepreneurs would argue that to a certain extent this may be true, but many skills, which are needed for success, can most definitely be learned.

Scores of entrepreneurs may wish that they had been given the opportunity! The idea behind this curriculum is to give tomorrow's employers the training they need to create new business prospects. Entrepreneur training is a relatively new concept and courses vary widely between schools. You may learn about return on investment, supply and demand, opportunity recognition, skills for success, competition, cost/benefit analysis, sales and marketing, ethics, e-commerce, and business law and tax.

## **5.2 THE GENERAL OBJECTIVES**

- Provide the knowledge, skills and attitudes in entrepreneurship skills training in entrepreneurship skills
- Training in the Vocational and Technical education training that will best meet the Ghanaian economy
- Develop positive attitude towards self employment, judicious use of material and time in class and on the field

## **5.3 NEED AND IMPORTANCE OF ENTREPRENEURIAL DEVELOPMENT TRAINING PROGRAMME**

The traditional school of thought had been thinking that “entrepreneurs are born and not made”. The modern observation has been that some entrepreneurs may be born but a large number of them can be educated, trained and made. Learning by trial and error method is altogether ruled out. It is necessary to encourage more people to take up this field, to help them to equip themselves with training.

### **Need of entrepreneurial development training programme**

The entrepreneurs play an important role in the economic development of any country. entrepreneurs make use of the factors of production to the fullest advantage of the society, generate employment, create innovation, improve standard of living, develop backward areas, etc. all these leads to higher economic growth. Entrepreneurial development is very essential for the economic development of a country. The entrepreneurship development programmes has an important role to play in solving the unemployment problem. "employment is demoralizing. It is the major source of waste in our present economic system. The most alarming form of unemployment today is educated unemployment. India is facing a chronic problem of unemployment. Due to this frustration and discontent increases, the rate of crime also increases. Instead of going after a government, people should make an effort to



get themselves by starting their own business. Under these circumstances entrepreneurship development programme assumes much importance

Importance/Need of entrepreneurship development programme (EDP)

Importance of entrepreneurship development programme (EDP) is to enable entrepreneurs initiating and sustaining the process of economic development in the following ways-

### **1. Creation of Employment Opportunities**

Unemployment is one of the most important problems confronting developing and underdevelopment countries, EDP's enable prospective entrepreneurs in the setting up of their own units, thus enabling them to get self-employment. With the setting up of more and more units by entrepreneurs, both on small and large scale, numerous job opportunities are created for the others.

Entrepreneur in this way get an opportunity to lead an independent and honorable life and at the same time they enable others in getting gainful employment. Several schemes like Nehru RozgarYojna, National Rural Employment Programme (NREP), Integrated Rural Development Programme (IRDP) etc. have been initiated by the government, of India in this direction. The thrust of all these schemes is to eliminate poverty and generate gainful employment opportunities for the unemployed. Thus entrepreneur can play an effective role in reducing the problem of unemployment.

### **2. Capital Formation**

It is not possible to set up an enterprise without adequate funds. Entrepreneur as an organizer of factors of production employs his own as well as borrowed resources for the setting up of his enterprise. Entrepreneur mobilizes idle savings of the public and put them to productive use. In this way he helps in capital formation, which is so essential for the industrial and economic development of a country. Various development banks like ICICI, IFCI, IDBI; SFCs, SIDCs take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial assistance to new entrepreneurs.

### **3.Balanced Regional Development**

Small scale units can be set up in industrially backward and remote areas with limited financial resources. Successful EDP's assist in accelerating the pace of industrialization in the backward areas and reduce the concentration of economic power in the hands of a few, Entrepreneurs feel like taking advantage of the various concessions and subsidies offered by the state and central government.

Success story of entrepreneurs set right example for others to follow and this accelerates the pace of industrialization in the backward areas. Setting up of more units leads to more development of backward areas and balanced regional development.

### **4. Use of Local Resources**

In the absence of any initiative local resources are likely to remain unutilized. Proper use of these resources can result in the progress or development of the area and that too at lower cost. Alert entrepreneurs seize the opportunity and exploit it in the best interests of the area and industry. Effective EDPs can help in the proper use of local resources by providing guidance, assistance, education and training to the prospective entrepreneurs.

### **5.Improvement in per Capital Income**

Entrepreneurs are always on the lookout for opportunities. They explore and exploit the opportunities. Entrepreneurs take lead in organizing various factors of production by putting them into productive use through the setting up of enterprises. More enterprises will lead to more production, employment and generation of wealth in the form of goods and services. It will result in the increase in the overall productivity and per capita income in the country. EDPs play a positive role in the setting of more units and thus help in generation of more employment and income.

#### **5.4 Stages in Entrepreneurial Development Programme:**

An entrepreneurial development programmes consists of 3 stages:

1. Preliminary stage

2. Training and development hub and

3. The follow-up

**1. Preliminary stage:** This stage mainly focuses on creating awareness about their entrepreneurial opportunities. It consists of activities and preparations required to organize and conduct training programs.

**2. Training and development hub:** The second stage is the training of the potential entrepreneurs. The training programmes which are mostly of six weeks duration, a package of training inputs is provided to the new entrepreneurs. The three main categories of training inputs are :

(I). Need for Achievement or Motivation training,

(II). Guidance in Business opportunities and support and

(III). Enhancing Management abilities.

**3. The Follow up:** The third stage is the follow up stage in which follow-up services are undertaken for various activities like:

(I) Follow-up on loan application for finance

(II) Facilitating infrastructure such as, land, factory shed and power, etc.,

(III) Trouble shooting.

This continuous flow of follow-up programmes simply aims at finding out the practical difficulties faced by the entrepreneurs while interacting with various financial and promotional agencies. This activity will provide encouragement to the entrepreneurs to continue their effort towards the achievement of their goal.

## **5.5 Conclusion**

In recent decades the role of an entrepreneur has been considered of very great significance in accelerating the pace of growth and economic development in both the developed and developing countries. An entrepreneur is a person who perceives opportunities, organizes the resources needed to exploit the opportunity and sets up an enterprise. The process of setting up an enterprise is called entrepreneurship. An enterprise is a business venture.

It is an undertaking that involves uncertainty and risk as well as innovation. An individual has the right to choose any income generating activity or self-employment or entrepreneurship as a career option. Functionally income generating and self-employment activities are the initial stages of entrepreneurship.

The qualities of entrepreneurship and management are present in varying degrees in both managers as well as entrepreneurs. Yet entrepreneurs are different from managers. They create opportunities for innovation, experimentation and production. Once production begins 285 managers take over. They are more concerned with organizing the routine day-to-day jobs. They do not prefer to take risks.

Entrepreneurship is a discipline with a knowledge-based theory. A person can learn and acquire the competencies of becoming an entrepreneur and start a venture and make it grow. So the myth that entrepreneurs are born and not made can safely be dispelled. Hence there exist various, governmental as well as non-governmental, agencies to promote entrepreneurship development in turn to contribute for the socioeconomic growth of its nation.

### **Question**

1. What are the objectives of entrepreneurial training?
2. Explain the need & importance of entrepreneurial development training programme?
3. Explain the importance and need of EDP?
4. State the stages of EDP?

## **CHAPTER– 6**

### **6.1 Introduction**

### **6.2 Meaning of Mobility of Entrepreneurs**

### **6.3 Entrepreneurial Change**

### **6.4 Think-Do-Create**

### **6.5 Excellent project management**

### **6.6 Meeting social complexity**

### **6.7 Occupational mobility**

### **6.8 Significance of factors of mobility**

### **6.9 Conclusion**

## **MOBILITY OF ENTREPRENEURS**

### **6.1 INTRODUCTION**

Mobility is an Integral part of human life. There are two aspects of mobility; movement and settlement. Movement caused by social, economic, political and cultural factors. The most common movement brain drain is caused mostly due to economic reasons. Entrepreneurs move from one place to another and one profession to another one. Some communities are more mobile than others. Marwari, Panjabi, Sindis are the example of more mobile communities. Movement of entrepreneurs reduces the Regional Imbalance among different regions. The Multinational Corporation (MNC) is the example of location mobility and intraprenurship as the result of occupational mobility. There are distinct feature and factors in every type of mobility. In the present study the researchers tried to figure out the distinct feature, pace and pattern as well as the factors of entrepreneurial mobility in Sylhet Division- one of the divisions of Bangladesh with distinct feature in peoples' life style and

profession and tried to come on a conclusion and find out a fruitful way to utilize this mobility for developing the base of entrepreneurship in this industrially backward area.

## **6.2 Meaning of Mobility of Entrepreneurs**

Knowledge-based theories of entrepreneurship infer transfer of knowledge from the effect of labor mobility on entrepreneurial entry. Yet, simple selection or situational mechanisms that do not imply knowledge transfer may influence entrepreneurial entry in similar ways. We argue that the extent to which such alternative mechanisms operate, labor mobility predicts entry but not subsequent performance for entrepreneurs. Analyses of matched employee–employer data from Sweden suggest that high rates of geographical and industry mobility increase individuals’ likelihood of entrepreneurial entry but have no effects on their entrepreneurial performance. This indicates that the relationship between labor mobility and entrepreneurial entry do not necessarily imply knowledge transfer.

## **6.3 Entrepreneurial Change**

The essence of change is proactive systemic change based on excellent project management. Entrepreneurial Change looks at the value driven basis of an organization and leads to a substantial transformations towards a culture of continuous improvement and innovation. Organizations and people are unique. This uniqueness holds the secret for successful change.

This is the basis of Entrepreneurial Change: It helps you envision and create your own future based on today’s resources. Through our systemic understanding of organizations and change, we include the technological, political and cultural dimensions of social complexity to mobilize resources. By combining innovative and proven models, methods and instruments – including real time strategic change, systemic inquiry, future search, lean instruments, open space processes, among others – we provide custom-made change.

## **6.4 Think-Do-Create**

The SE group is more than a Think-Tank. We bring the full power of a think tank deeply rooted in systemic thinking, excellent project management and powerful co-creation. This makes SE group a think-do-create-tank.

As such, we enable successful change with a well-balanced return on investment, based on three critical success factors:

1. Next practice thinking
2. Excellent project management
3. Meeting social complexity

The concept of next practice looks at the real potential and possibilities of the people and the organization. The most crucial and critical success factor in the context of change is the interplay between the present practice and the specific possible practices of the organization. Exploring the knowledge, the wisdom and the ideas inside an organization creates a rich picture of future developments, of improvement and innovation, which is based on the genuine resources and motivation of the people in an organization.

## **6.5 Excellent project management**

Knowing organizations and knowing change is very existential for successful changemanagement. The other half is excellent project management. Our intensive cooperation with leading bodies in the field of project management like the International Centre for Complex Project Management has not only been awarded on the scientific side, it had been more than beneficial for the change projects and transformations we supported over time.

## **6.6 Meeting social complexity**

If we look at change or other organizational issues we are always concerned with three dimensions: a technological, a political and a cultural dimension. Scientific management as we know it focuses mainly on the technological dimension, while successful change management must include all dimensions.

## **6.7 OCCUPATIONAL MOBILITY**

Occupational mobility is the ease of movement of resources between jobs. For example, a worker leaves a job as an accountant to take a job as a computer programmer. Some factors are highly mobile and thus are easily switched.

## **6.8 Significance of factors of mobility**

Mobility enables different factor combinations to be made into use. For instance, more capital and labour can only be used if either of these factors is mobile to facilitate a change in the production technique. This enables the producers to search for a least cost method of production. Mobility of factors of production does facilitate the movement of factors of production from surplus areas to deficit areas. This automatically elaborates that if factors are sufficiently mobile, unemployment will consequently be avoided in surplus areas as production will be enhanced in deficit areas. This leads to a more efficient utilization of resources.

Mobility of factors of production thus enables the benefits of economic growth of a country to be spread evenly throughout. Thus, many industries are located in urban areas primarily because of the urban market and economies of scale. If all industries can be encouraged to locate in rural areas through incentives, then the benefits of industrial development in a particular country can be spread more evenly.

Mobility of factors of production equally enables the transfer of expertise to areas where it is efficient and in demand. For instance, in the event of mobility experienced, managers can contribute to the development of aspects of the firm lacking in managerial expertise and in some cases they can transfer their skills internationally.

The possibility of vertical occupational mobility of labour can have motivational effects in that if workers perceive chances of being promoted for



outstanding work, they are in general likely to be more efficient at their work therefore contributing to the overall efficiency of their business enterprise.

Mobility may also be deemed to be significant in that if workers are occasionally allowed to perform various/different tasks and are capable of performing them, then they are less likely to experience the monotony often associated with specialization attributed by its accompanying negative effects.

Factor mobility is also significant in production in that factors of production that are immobile occupationally and have no alternative use, are considered to have no opportunity cost and are thus not regarded by economists as scarce resources.

Therefore, the above aspects of significance of factor mobility is as indicated below:

- i. Unemployment
- ii. Income distribution
- iii. Regional disparities
- iv. Flexibility in production
- v. Utilization of the otherwise idle resources
- vi. Incentive to investment – economic minimization of losses while maximizing profits/ earnings.

## **6.9 CONCLUSION**

The study of factors of entrepreneurial mobility is essential for pinpointing the elements and techniques of entrepreneurial development program. Giving proper importance to those factors can open the ways to effectively carry out entrepreneurial development programs for specific regions. From the study of occupational mobility, the classes to be given importance in entrepreneurship can be pinpointed for effectively and similarly from the study of location mobility the factors of location attractiveness can be rightly marked and be used by informing the prospective

groups for building up the entrepreneurial bases of a region and ultimately of a country.

### **Question**

1. What is occupational mobility?
2. What do you mean by mobility of entrepreneur?
3. What are the significance factors of mobility?

## **CHAPTER – 7**

**7.1 Introduction**

**7.2 Central government organizations/agencies and their functions**

**7.3 National Small Industries Corporation Limited**

**7.4 Bureau of Indian standards (bis) parwanoo, solan**

**7.5 Registrar of companies, Jalandhar, Punjab**

**7.6 Regional testing centre, okhlaindl. estate, new delhi-20**

**7.7 Kknitwear facility centre, focal point Ludhiana, Punjab**

**7.8 Bicycle and sewing machine research and development centre, focal point,  
Ludhiana, Punjab**

**7.9 Food and nutrition board, dept. of food, ministry of agriculture, new delhi**

**7.10 Electronics test & development centre, chambaghat, solan, Himachal  
Pradesh**

**7.11 Controller of imports & exports, inderprasth, bhawan, New Delhi**

**7.12 Reserve bank of India, central vista, sector-17, Chandigarh**

**7.13 Small industries development bank of India, baddi & solan**

**7.14 Other specialized institutions in training and development**

**7.15 Agmark department of marketing and inspection, sub-office 112, 33-,  
Chandigarh state govt. department and organizations**

**7.16 Directorate of industries, bamloe, shimla, Himachal Pradesh**

**7.17 Role and functions of MSME (micro, small, macro enterprise)  
development organisation**

**7.18 Forms of business organization**

**7.19 Sole Proprietorship**

**7.20 Advantages of Sole Proprietorship**

**7.21 Disadvantages of Sole Proprietorship**

## **7.22 Partnerships**

## **7.23 Advantages of Partnerships**

## **7.24 Disadvantages of Partnerships**

## **7.25 Types of Partnerships**

## **7.26 Corporations**

## **7.27 Advantages of Corporations**

## **7.28 Disadvantages of Corporations**

## **7.29 Non-profit**

## **7.30 Conclusion**

# **ROLE OF CONSULTANCY ORGANIZATIONS IN PROMOTING ENTREPRENEURS**

## **7.1 Introduction**

Central Government as well as State Govt. has established a number of institutions for the promotion of industries whose decisions and functions influences industrial activities in the country/region/State.

## **7.2 CENTRAL GOVERNMENT ORGANISATIONS/AGENCIES AND THEIR FUNCTIONS:**

Govt. of India has created following Institutions/organization/corporation/boards to look into various aspects of promoting and developing industries. They formulate policies, co-ordinate and monitor the progress of industrial products falling under their purview.

- Khadi& Village Industries Commission
- All India Handicraft Board
- All India Handlooms Boards
- Central Silk Board
- Coir Board
- Jute Board

➤ All India Power looms Board

All these Commissions/Boards promote only specific industries coming under their purview as is clear from the name of Commission/Board. These corporations frame policies and make programmes for the development of products/industries falling under their purview and coordinate these programmes and monitor the progress of these industries. Beside these commissions and boards, there are certain other Agencies/Institutions at Central level which render service/assistance to industries in their respective fields.

### **7.3 NATIONAL SMALL INDUSTRIES CORPORATION LTD.:**

National Small Industries Corporation Ltd., has its Head Office in New Delhi. It has four regional offices located in Mumbai, Kolkata, Chennai and New Delhi. To avail the facility provided by the NSIC, H.P State is attached with its branch office located at SCO -378, Sector 32-D, Chandigarh. Their main functions are as below:-

- ✓ Supply of machinery on hire purchase basis
- ✓ Registration of units for participation in purchase programme of central and State Govt. and other Institutions. This scheme is popularly known as Single Point Registration
- ✓ Marketing assistance (Internal and export)
- ✓ Development of prototype of machines and equipment etc.

### **7.4 BUREAU OF INDIAN STANDARDS (BIS) PARWANOO, SOLAN:**

It is Central Govt. Department which specifies quality standards for different products. It helps in selecting appropriate machinery and equipment for installing quality facilities. It helps in setting up testing laboratories in units premises and also authorizes units to use ISI mark which manufacture products as per specified standards.

- ❖ The Patent Sub-Office-112,33-C, Chandigarh

It registers the “Trade Mark” of interested units and provides legal protection in case of imitation by others.

H.P. Patent Information Centre, State Council for Science Technology & Environment, Kusumpti, Shimla-9

It creates awareness and facilitates in registration of Patent/Trade Mark / Copy Rights etc.

#### **7.5 REGISTRAR OF COMPANIES, JALANDHAR, PUNJAB:**

In case a unit wants to opt for 'Company as a form of ownership' it has to register with Registrar of Companies of respective area. Companies formed in Himachal Pradesh need to be registered with the office located at Jalandhar.

#### **7.6 REGIONAL TESTING CENTRE, OKHLA INDL. ESTATE, NEW DELHI-20:**

It has its head office at New Delhi and four Regional Centers located at Mumbai, Calcutta, Chennai and New Delhi. Its main function is to provide testing facilities to industrial units at nominal charges.

#### **7.7 KNITWEAR FACILITY CENTRE, FOCAL POINT LUDHIANA, PUNJAB:**

Its main function is to assist units manufacturing hosiery goods in obtaining quality mark (wool mark) and testing their products.

#### **7.8 BICYCLE AND SEWING MACHINE RESEARCH AND DEVELOPMENT CENTRE, FOCAL POINT, LUDHIANA, PUNJAB:**

Its main function is to produce quality products in bicycles and sewing machines. It provides testing and training facilities in these areas.

#### **7.9 FOOD AND NUTRITION BOARD, DEPTT. OF FOOD, MINSITRY OF AGRICULTURE, NEW DELHI:**

Its main function is to provide testing assistance to units producing quality foodproducts. It provides information on laboratory and machinery requirements for getting FPO license.

### **7.10 ELECTRONICS TEST & DEVELOPMENT CENTRE, CHAMBAGHAT, SOLAN, HIMACHAL PRADESH:**

Its main function is to provide testing facilities, commercial facilities etc, to units manufacturing electronics products and also provides training in electronics and development of new electronic products.

### **7.11 CONTROLLER OF IMPORTS & EXPORTS, INDERPRASTH, BHAWAN, NEW DELHI:**

Its main function is to assist units in import of raw materials and export of final products to other countries.

### **7.12 RESERVE BANK OF INDIA, CENTRAL VISTA, SECTOR-17, CHANDIGARH:**

Its main function is to provide guidelines to lending Institutions like IDBI, IFCI, ICICI, SIDBI, and Financial Corporations & Banks in lending money to industrial sectors and control money supply.

### **7.13 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA, BADDI & SOLAN:**

It provides finance to small scale industries through its various refinance schemes. It provides refinance through State Financial Corporations, Banks etc at concessional rates.

### **7.14 OTHER SPECIALISED INSTITUTIONS IN TRAINING AND DEVELOPMENT:**

- ∞ Central Tool Room, Ludhiana, Delhi, Calcutta and Bangalore
- ∞ Central Institute of hand Tools, Jalandhar
- ∞ Central food Technology Research Institute, Mysore
- ∞ Central institute of tool Designs, Hyderabad
- ∞ Institute for Designs of Electrical Measuring Instruments (IDEMT), Mumbai
- ∞ Central Machine Tools Institute, Bangalore.
- ∞ Central Institute for Plastic Engg. & Tools Chennai and Ahmadabad.

- ∞ National Institute for Foundry and Forge Technology, Post Office, Hatia ,  
Ranchi- 34003
- ∞ National Institute for Micro, Small & Medium Enterprises (NI-MSME),  
Hyderabad
- ∞ Entrepreneurship Development Institute of India, Ahmadabad, Lucknow,  
Patnaand Bhopal.

### **7.15 AGMARK DEPARTMENT OF MARKETING AND INSPECTION, SUB-OFFICE 112, 33-, CHANDIGARHSTATE Govt. DEPARTMENT AND ORGANISATIONS:**

In addition to Institutional support by Central Govt. for promoting industries, Govt. of Himachal Pradesh has also created the following Institutions/Departments to promote industries. Their functions, roles etc. are given below in brief:

### **7.16 DIRECTORATE OF INDUSTRIES, BAMLOE, SHIMLA, HIMACHAL PRADESH:**

- ❖ Registration of MSEs and recommendation of medium and large scale industries
- ❖ to appropriate authority.
- ❖ Technical consultancy / general consultancy.
- ❖ Financial assistance, recommendation of cases to financial Institutions/ Banks for loan under PMEGP Scheme.
- ❖ Computation of statistics
- ❖ Liaison with and feed back to Central Govt.
- ❖ Providing all incentives to industries given by both Central and State Govt.

### **HP SMALL INDUSTRIES DEVELOPMENT CORPORATION, HIMRUS BUILDING,SHIMLA:**



↳ Plan and develop Industrial Estate and Industrial Areas.

↳ Participation in equity of medium and large units.

**HP STATE SMALL INDUSTRIES AND EXPORT CORPORATION,  
KISHORE BHAWAN, SHIMAL, HIMACHAL PRADESH:**

↳ Supply of scarce raw materials through raw materials depots.

↳ Machinery on hire purchase

↳ Assistance in exports

↳ Marketing assistance

**HP ELECTRONICS DEVELOPMENT CORPORATION, KHALINI,  
SHIMLA:**

Promotion of industries in the field of Electronic Sector including in joint and public etc.

**HP KHADI & VILLAGE INDUSTRIES BOARD, CHAURA MAIDAN,  
SHIMLA:**

↳ Development of Khadi& Village Industries in the State.

↳ Provides financial assistance at concessional rate.

↳ Provides marketing assistance by selling the product of KVI through its own show rooms.

**HP HANDLOOM AND HANDICRAFTS CORPORATION, KUSUMPTI,  
SHIMLA:**

↳ Promote and develop handloom and handicraft products.

↳ Provides training in handlooms and handicraft.

↳ Assist Entrepreneurs in setting up units in their product.

↳ Render marketing assistance by selling handloom and handicrafts products of local entrepreneurs through show rooms.

**HIMACHAL CONSULTANCY ORGANISATION, BRIDGE VIEW HOTEL,  
SHIMLA:**

Render consultancy to entrepreneurs starting from project identification to marketing of their products.

Development of Entrepreneurship through conducting Entrepreneurship development programmes.

**HP STATE FINANCIAL CORPORATION, HIMRUS BUILDING, SHIMLA:**

- ↳ Provides term loan as well as working capital loan to small and medium scale units under its various schemes.
- ↳ Provides loan for expansion and Modernization of existing units.H. P. Pollution Control Board (Kings Way Hotel, Shimla)
- ↳ It assists units in installing necessary pollution Control devices and grant necessary permission.

**7.17 ROLE AND FUNCTIONS OF MSME (Micro, Small, Macro Enterprise) development ORGANISATION:**

MSME Development Organization, formally known as Small Industries Development Organization (SIDO) which is an apex body and nodal agency for formulating co-ordinating and monitoring the policies and programmes for promotion and development of MSMEs in the country was established in 1954 on the recommendation of an international Planning team sponsored by Ford foundation. It maintains close liaison with Central Ministries, Planning Commission, State Govt., Financial institutions and other agencies concerned with the development of MSMEs. It also provides comprehensive range of facilities, training, testing, tooling and common facilities etc. to small scale units through a net work of 30 MSME-DI's, 29 Branch Institutes, 4 Regional Testing Centers, 1 Product-cum Process Development Centre, 2 Footwear Training Centers, 4 Productivity Centers.

In addition to this there are certain specialized institutions which provide training and technical services in specialized fields. Micro, Small &Medium Enterprises Development Institute (MSME-DI), Electronic Complex, Chambaghat, Solan(H.P.) 173213 Under the MSME Development Organization an Extension

Centre was opened at Chambaghat, Solan (HP) in 1960 with an objective to provide training in industrial Thermometers, Clinical Thermometers and Glass Blowing . In addition, to this it also provided common facilities in mercury filling in thermometers.

This Extension Centre was converted into branch institute in the year 1973 which was headed by Deputy Director In charge. Keeping in view, the requirement of Industrial Development in Himachal Pradesh, it was converted into a full-fledged Institute headed by Director in 1976. At present this Institute has competent technical officers in different trades such as Food, Electrical & Electronics, Mechanical, Leather technology, Glass & Ceramic and Economic Investigation. The Institute has a good library containing books on different technical trades, managements, volumes of different project profiles and other general field of interest for the benefit of MSMEs. Besides, number of technical journals and magazines are also available in the library for the visitors. The Institute provides following services to the existing and prospective entrepreneurs:

### **1.ECONOMIC INFORMATION AND CONSULTANCY SERVICE:**

- ↳ Educate Entrepreneurs about the incentives and facilities being provided by both Central and State Govt. to MSMEs.
- ↳ Conducts Industrial Potential surveys of different distt./Areas:-
- ↳ Collect, Compile and disseminate information on MSMEs.
- ↳ Educate entrepreneurs about scope of industries in different areas.
- ↳ Conduct market surveys for various products.
- ↳ Inform Entrepreneurs about the schemes and programmes of various developmental agencies. □ Conducts studies and surveys about the problems of MSMEs in the state.
- ↳ Educate Entrepreneurs about Govt. Single Point Registration scheme.
- ↳ Motivates entrepreneurs to participate in different National and International Level Fairs

↳ Encourage entrepreneurs to apply for National Awards Scheme.

## **2. TECHNICAL CONSULTANCY SERVICE:**

- Prepare project profiles on products as per the need of prospective entrepreneurs.
- Solve technical problems of MSMEs.
- Educate entrepreneurs about the latest technology and available raw materials.
- Help entrepreneurs in selecting suitable machinery and raw materials.
- Educate and help entrepreneurs in producing quality products.
- Prepare design and drawings of tools, jigs fixtures and machinery.
- Give demonstration to Entrepreneurs on manufacturing of small scale industries products.
- Conducts in plant studies of small scale units and suggest for improvement and modernization.
- Assess the capacity of the small scale units for NSIC registration

## **3. MANAGEMENT CONSULTANCY SERVICES:**

- Provides consultancy to SSI entrepreneurs on personnel/ marketing/ financial management.
- Provides consultancy to entrepreneurs for reducing production costs. Proper inventory management and improvement in quality of products.

## **4. MANAGEMENT AND TECHNICAL TRAINING:**

- Organize Industrial Motivation Campaign to motivate the educated unemployed youths towards self employment.
- Organize Entrepreneurship Development Programme to develop entrepreneurship among various sections of society.
- Conducts Industrial Management Training Programmes on personnel, marketing, production, financial and export management etc. for the benefit of existing entrepreneurs.
- Conducts skill oriented Entrepreneurship development programme.

□ Conduct various other awareness/educational programmes viz. programme on Energy conservation, Export packaging/Export promotion, promotion of ISO-9000, Vendor Development Programme, Bar Coding and Trade mark/ Patent etc for the benefit of MSMEs in the state of Himachal Pradesh.

## **7.18 FORMS OF BUSINESS ORGANIZATION**

One of the first decisions that you will have to make as a business owner is how the business should be structured. All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, life span, and financial structure. This decision will have long-term implications, so you may want to consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of “structure” you are willing to deal with.
- The business's vulnerability to lawsuits.
- Tax implications of the different organizational structures.
- Expected profit (or loss) of the business.
- Whether or not you need to re-invest earnings into the business.
- Your need for access to cash out of the business for yourself.

An overview of the four basic legal forms of organization: Sole Proprietorship; Partnerships; Corporations and Limited Liability Company follows.

### **7.19 Sole Proprietorship**

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietorships own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its

liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

### **7.20 Advantages of a Sole Proprietorship**

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

### **7.21 Disadvantages of a Sole Proprietorship**

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially as an adjustment to income).

### **7.22 Partnerships**

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed; Yes, its hard to think about a

“break-up” when the business is just getting started, but many partnerships split up at crisis times and unless there is a defined process, there will be even greater problems. They also must decide up front how much time and capital each will contribute, etc.

### **7.23 Advantages of a Partnership**

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners’ personal tax return.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

### **7.24 Disadvantages of a Partnership**

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

### **7.25 Types of Partnerships that should be considered:**

#### **i. General Partnership**

Partners divide responsibility for management and liability, as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.

#### **ii. Limited Partnership and Partnership with limited liability**

“Limited” means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decision, which generally encourages investors for short term projects, or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

### **iii. Joint Venture**

Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such, and distribute accumulated partnership assets upon dissolution of the entity.

## **7.26 Corporations**

A Corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it. A Corporation can be taxed; it can be sued; it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

## **7.27 Advantages of a Corporation**

- Shareholders have limited liability for the corporation’s debts or judgments against the corporation.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.
- Corporations can raise additional funds through the sale of stock.



- A Corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S Corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

### **7.28 Disadvantages of a Corporation**

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus this income can be taxed twice.

### **7.29 Nonprofit**

Some of the most profitable corporations in this country are *nonprofits*. The classification as a nonprofit does not mean that the business does not make a profit nor does it mean that it tried but failed to make a profit. It simply means that the Internal Revenue Service has determined that it has filed for and meets the requirements as an organization that provides a service to the community for certain purposes. These purposes may be religious, charitable, scientific, testing for public safety, literacy, educational, fostering a national or international amateur sports competition, or the prevention of cruelty to children or animals.

Nonprofits are prohibited from distributing Net Income to owners, members, directors, or officers but they may pay fair compensation to their employees. Contributions to nonprofits are tax deductible by the donor, which is a great advantage in raising funds.

Form a nonprofit in compliance with appropriate state laws and then seek IRS classification.

Nonprofits are controlled just as other corporations by a board of directors, but they have no stockholders. A nonprofit does not pay income tax, but it does file

informational returns. Just as with profit corporations, the nonprofit offers insulation from liability to its board, officers, and employees.

Since it is not always easy to determine whether a business concept will be eligible under state and federal regulations for nonprofit status, you should contact a lawyer to learn more about nonprofit organizations.

The Reality Checks Legal Structures and Costs of Selecting and Forming a Business Structure should give you a good starting point so you can engage your attorney and accountant in a thoughtful discussion. You and they will certainly want to consider other aspects of your business structure than those suggested here, but these will give you some idea of what's most important. Don't delay making that critical decision.

### **7.30 Conclusion**

India has a large, demographically diverse population, with many young people seeking employment. The country is on a path to growth, but the rate of growth has been slow. The government has realized the roots of the basic problems and made appropriate reforms, mainly in the areas of administration, economy, and labour, as it tries to free itself from negative aspects of its colonial legacy. There has been a substantial thrust toward science, technology, and innovation in past 20 years, and many initiatives have been undertaken in that direction.

However, the investments in science, technology, and innovation are not yet translating into the desired reality. Realizing that the innovation-led entrepreneurship development holds promise for growth, the government has taken major policy initiatives with a strong innovation agenda.

### **Questions**

1. Explain the functions of central government to the entrepreneurs.
2. State the role and functions on MSME development organization.

3. Explain the forms of business organization.

### **UNIT - III**

#### **CHAPTER - 8**

**8.1 Introduction**

**8.2 MEANING OF PROJECT**

**8.3 The Project Life Cycle (Phases)**

**8.4 FEASIBILITY ANALYSIS**

**8.5 PROJECT CLASSIFICATION**

**8.6 PROJECT IDENTIFICATION**

**8.7 Five Areas of Project Feasibility**

## **8.8 Benefits of Conducting a Feasibility Study**

## **8.9 Conclusion**

# **PROJECT MANAGEMENT**

## **8.1 Introduction**

Project management is the discipline of initiating, planning, executing, controlling, and closing the work of a team to achieve specific goals and meet specific success criteria. A project is a temporary endeavor designed to produce a unique product, service or result with a defined beginning and end (usually time-constrained, and often constrained by funding or deliverables) undertaken to meet unique goals and objectives, typically to bring about beneficial change or added value.

## **8.2 MEANING OF PROJECT**

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His /Her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb “well began is half done” applies to project selection also indicates the significant of good beginning.

### **Project Objective**

The project objective describes the project’s outcomes: intended and direct, short- and medium-term effects on the target group. The project objective must lie within the scope of the project, and one must be able to directly attribute the effects to the project. The project objective is often formulated in terms of the project’s utility for the target group: “*Better... higher...*” It also makes sense to formulate the project objective as a situation to be achieved in the future.

The project objective ought also to describe an outcome, meaning the effect or change that the project is supposed to cause for the target group. In practice it is often not quite so simple to distinguish outcomes from outputs, i.e. the project’s

products and deliverables. Well-formulated, genuine outcome (and impact) objectives are therefore of great importance if the outcome and impact assessment is to have any significance.

A well-formulated project objective

- Provides a concrete description of the project's effect at the outcome level;
- Was developed in a participatory process;
- Is accepted by the target group and other stakeholders;
- Is clear and concise.

### **8.3 The Project Life Cycle (Phases)**

The project manager and project team have one shared goal: to carry out the work of the project for the purpose of meeting the project's objectives. Every project has a beginning, a middle period during which activities move the project toward completion, and an ending (either successful or unsuccessful). A standard project typically has the following four major phases (each with its own agenda of tasks and issues): initiation, planning, implementation, and closure. Taken together, these phases represent the path a project takes from the beginning to its end and are generally referred to as the project "life cycle."

#### **1. Initiation Phase**

During the first of these phases, the initiation phase, the project objective or need is identified; this can be a business problem or opportunity. An appropriate response to the need is documented in a business case with recommended solution options. A feasibility study is conducted to investigate whether each option addresses the project objective and a final recommended solution is determined. Issues of feasibility ("can we do the project?") and justification ("should we do the project?") are addressed.

Once the recommended solution is approved, a project is initiated to deliver the approved solution and a project manager is appointed. The major deliverables and the participating work groups are identified, and the project team begins to take

shape. Approval is then sought by the project manager to move onto the detailed planning phase.

## **2. Planning Phase**

The next phase, the planning phase, is where the project solution is further developed in as much detail as possible and the steps necessary to meet the project's objective are planned. In this step, the team identifies all of the work to be done. The project's tasks and resource requirements are identified, along with the strategy for producing them.

This is also referred to as "scope management." A project plan is created outlining the activities, tasks, dependencies, and timeframes. The project manager coordinates the preparation of a project budget by providing cost estimates for the labor, equipment, and materials costs. The budget is used to monitor and control cost expenditures during project implementation.

Once the project team has identified the work, prepared the schedule, and estimated the costs, the three fundamental components of the planning process are complete. This is an excellent time to identify and try to deal with anything that might pose a threat to the successful completion of the project. This is called risk management. In risk management, "high-threat" potential problems are identified along with the action that is to be taken on each high-threat potential problem, either to reduce the probability that the problem will occur or to reduce the impact on the project if it does occur. This is also a good time to identify all project stakeholders and establish a communication plan describing the information needed and the delivery method to be used to keep the stakeholders informed.

Finally, you will want to document a quality plan, providing quality targets, assurance, and control measures, along with an acceptance plan, listing the criteria to be met to gain customer acceptance. At this point, the project would have been planned in detail and is ready to be executed.

### **3.Implementation (Execution) Phase**

During the third phase, the implementation phase, the project plan is put into motion and the work of the project is performed. It is important to maintain control and communicate as needed during implementation. Progress is continuously monitored and appropriate adjustments are made and recorded as variances from the original plan. In any project, a project manager spends most of the time in this step. During project implementation, people are carrying out the tasks, and progress information is being reported through regular team meetings. The project manager uses this information to maintain control over the direction of the project by comparing the progress reports with the project plan to measure the performance of the project activities and take corrective action as needed. The first course of action should always be to bring the project back on course (i.e., to return it to the original plan). If that cannot happen, the team should record variations from the original plan and record and publish modifications to the plan. Throughout this step, project sponsors and other key stakeholders should be kept informed of the project's status according to the agreed-on frequency and format of communication. The plan should be updated and published on a regular basis.

Status reports should always emphasize the anticipated end point in terms of cost, schedule, and quality of deliverables. Each project deliverable produced should be reviewed for quality and measured against the acceptance criteria. Once all of the deliverables have been produced and the customer has accepted the final solution, the project is ready for closure.

### **4. Closing Phase**

During the final closure, or completion phase, the emphasis is on releasing the final deliverables to the customer, handing over project documentation to the business, terminating supplier contracts, releasing project resources, and communicating the closure of the project to all stakeholders. The last remaining step

is to conduct lessons-learned studies to examine what went well and what didn't. Through this type of analysis, the wisdom of experience is transferred back to the project organization, which will help future project teams.

#### **8.4 FEASIBILITY ANALYSIS**

Feasibility study involves taking a judgment call on whether a project is doable. The two criteria to judge feasibility are cost required and value to be delivered.

A well-designed study should offer a historical background of the business or project, a description of the product or service, accounting statements, details of operations and management, marketing research and policies, financial data, legal requirements and tax obligations. Generally, such studies precede technical development and project implementation.

Major sources of business ideas

Business ideas are thoughts that when implemented can lead to income generalization. Entrepreneurs must first come up with ideas from different sources that should lead them to starting a well-planned business. Here some of the resources of business ideas.

**a) Surveys:** Business ideas can be generated from market surveys indicating or showing which sector is viable or possibly void of products. People can check the market to come out with appropriate conclusions on which sectors are not flooded or occupied.

**b) Training:** Business ideas can be acquired through training individuals where they are equipped with necessary skills and knowledge from schools and such other institutions of training.



**c) Experience:** An idea can also be generated from experience. Experience in itself comes from constant touch on a particular aspect. For instance, an individual might have an experience in accounting through his or her occasional involvement with accounting issues.

**d). Hobbies:** Hobbies are what one is fond of doing most of his or her time. At least each and every one finds something interesting and comfortable doing every time. Well, that might be a source of business ideas.

**e). Talents:** A business idea can also come from individual talents. You are best in what you are talented in and this might form a good base for starting a business if you spot an idea in that area.

For instance, if you are talented to play football, you might spot an idea in supplying football kits to customers in the market.

**f). Strengths of an individual:** An individual's strength can also serve as a source of idea which is tuned to an idea for carrying out business. For instance, if you have a particular strength in helping out clients through consultations, that could form a base to start a business.

**g) Market gaps (niche):** Spotting a gap in the market can also form an idea. A market gap in this case is used to mean some important area that is not occupied. Sometimes, a particular area in the market may be empty with nobody really providing some goods or services needed by customers. This is what can be formed to an idea.

**h). Events:** A business can also be generated through attending events in which new ideas are exchanged. For instance, an event that is scheduled in some other place can be very good opportunity to find out what is missing in that particular place and by providing such products, you satisfy customers' needs which is one of the reasons of doing business.

**i). Media** An idea can also come from the media. Reading magazines, newspapers and such published materials that contain business related issues

can help one generate an idea. An idea can still come from the other media sources like television stations and radios. Discussions related to business topics can be very useful in generation of an idea.

**j) Shows and exhibitions:** An idea can also be extracted from shows and exhibitions. By seeing what other people presents in the shows and exhibitions, an individual can come up with an idea of providing something like what he or she has seen others do.

**k). Recognizing needs :** An idea can also be generated from recognition of what customers need in the market. If for instance customers are frequently demanding maize flour instead of maize itself, one can come in to provide the maize flour demanded by customers.

**l). Merging existing Businesses:** Business people can also come up together to merge their business as a new development towards achieving or getting more customers or for provision of better services to customers.

**m). Listening to what people say:** A business idea can also be generated through listening from other people's thoughts. This is more so important when you socialize with great minds or such people who have tried out businesses or those who actually are in businesses.

## **8.5 PROJECT CLASSIFICATION**

Project classification helps in expressing and highlighting the essential features of project. Different authorities have classified projects differently. The following are some of the important classification of projects.

**(1) Quantifiable and Non-Quantifiable Projects:** Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first

category while projects involving health, education and defense fall in the second category.

## **(2) Sectional Projects**

Here the classification is based on various sectors like

- Agriculture and allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and communication sector
- Information technology sector
- Miscellaneous

This system of classification has been found useful in resource allocation at macro level.

**(3) Techno-Economic Projects** :Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factors intensity-oriented classification, causation oriented classification as discussed below.

**(a) Factor intensity-oriented classification:** Based on this projects may be classified as capital intensive or labor intensive if large investment is made in plant and machinery the project will be termed as capital intensive. On the other hand project involving large number of human resources will be termed as “labor intensive”.

**(b) Causation-oriented classification:** On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

**(c) Magnitude-oriented classification:** This is based on the size of investment involved in the projects, accordingly project are classified into large scale, medium-scale or small-scale projects.

The selection of a project consists of two main steps: Project identification and project selection.

## **8.6 PROJECT IDENTIFICATION**

Often indenting entrepreneurs always are in search of project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e. product? Idea generation about a few projects provides a way to come out of the above tangle.

### **IDEA GENERATION**

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

- (i) Knowledge of potential customer needs.
- (ii) Personal observation of emerging trends in demand for certain products.
- (iii) Scope for producing substitute product.
- (iv) Trade and professional magazines which provide a very fertile source of project ideas.
- (v) Departmental publications of various departments of the government.
- (vi) Success stories of known entrepreneurs or friends or relatives.
- (vii) A new product introduced by the competitor.
- (viii) Ideas given by knowledgeable persons.

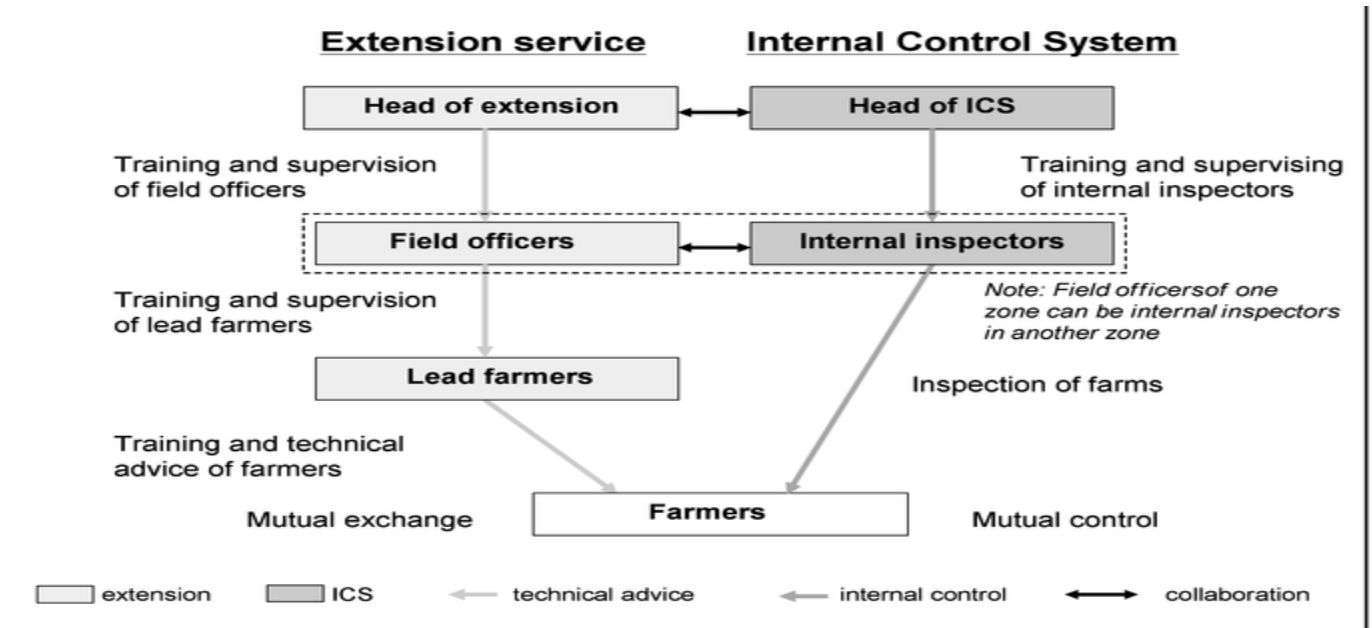
All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going

through these sources if an entrepreneur has been able to get six project ideas, one project idea will be finally selected going through the following selection process.

### **Internal Constraints**

At the organizational level, internal control objectives concern the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. With this in mind, we can summarize internal constraints as anyone or any combination of the following:

- **Equipment:** The way equipment is used limits the ability of the system to produce more salable goods/services.
- **People:** Lack of skilled people limits the system; mental models also cause negative behaviors that become constraints.
- **Policy:** A written or unwritten policy prevents the system from making more goods/services. The list of potential internal constraints is long: employees may not have the proper skills to use specific types of equipment, policy may organize the processes in an imperfect manner, equipment may depreciate faster than expected, employees may be absent or inefficient, policy may limit resource allocation to inventory and warehousing, etc. Internal constraints are a constant concern for the managers who must try to minimize them by continually optimizing the system. For example, if employees lack specific skills, management may want to refine its hiring policies.



Internal control system

### External Constraints

In their attempts to maximize existing profits, business managers must consider both the short- and long-term implications of decisions made within the firm and the various external constraints that could limit the firm's ability to achieve its organizational goals. These constraints can be organized into three categories:

- Scarcity
- Contracts
- Legalities

The first external constraint, resource scarcity, refers to the limited availability of essential inputs (including skilled labor), key raw materials, energy, specialized machinery and equipment, warehouse space, and other resources. Moreover, managers often face constraints on plant capacity that are exacerbated by limited investment funds available for expansion or modernization.

Contractual obligations also constrain managerial decisions. Labor contracts, for example, may constrain managers' flexibility in worker scheduling and work

assignments. Labor contracts may also restrict the number of workers employed at any time, thereby establishing a floor for minimum labor costs.

Finally, laws and regulations have to be observed. Legal restrictions can constrain production and marketing decisions. Examples of laws and regulations that limit managerial flexibility include: minimum wage, health and safety standards, fuel efficiency requirements, anti-pollution regulations, and fair pricing and marketing practices.

A feasibility study aims to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats present in the environment, the resources required to carry through, and ultimately the prospects for success. In its simplest terms, the two criteria to judge feasibility are cost required and value to be attained.

A well-designed feasibility study should provide a historical background of the business or project, a description of the product or service, accounting statements, details of the operations and management, marketing research and policies, financial data, legal requirements and tax obligations. Generally, feasibility studies precede technical development and project implementation.

A feasibility study evaluates the project's potential for success; therefore, perceived objectivity is an important factor in the credibility of the study for potential investors and lending institutions. It must therefore be conducted with an objective, unbiased approach to provide information upon which decisions can be based

### **8.7 Five Areas of Project Feasibility:**

1. Technical Feasibility - assessment is centered on the technical resources available to the organization. It helps organizations assess if the technical resources meet capacity and whether the technical team is capable of converting the ideas into working systems. Technical feasibility also

involves evaluation of the hardware and the software requirements of the proposed system.

2. **Economic Feasibility** - helps organizations assess the viability, cost, and benefits associated with projects before financial resources are allocated. It also serves as an independent project assessment, and enhances project credibility, as a result. It helps decision-makers determine the positive economic benefits to the organization that the proposed system will provide, and helps quantify them. This assessment typically involves a cost/ benefits analysis of the project.
3. **Legal Feasibility** - investigates if the proposed system conflicts with legal requirements like data protection acts or social media laws.
4. **Operational Feasibility** - this involves undertaking a study to analyze and determine whether your business needs can be fulfilled by using the proposed solution. It also measures how well the proposed system solves problems and takes advantage of the opportunities identified during scope definition. Operational feasibility studies also analyze how the project plan satisfies the requirements identified in the requirements analysis phase of system development.
5. To ensure success, desired operational outcomes must inform and guide design and development. These include such design-dependent parameters such as reliability, maintainability, supportability, usability, disposability, sustainability, affordability, and others.
6. **Scheduling Feasibility** is the most important for project success. A project will fail if not completed on time. In scheduling feasibility, we estimate how much time the system will take to complete, and with our technical skills we need to estimate the period to complete the project using various methods of estimation.

## **8.8 Benefits of Conducting a Feasibility Study**



Conducting a feasibility study is always beneficial to the project as it gives you and other stakeholders a clear picture of your idea. Below are the key benefits of conducting a feasibility study:

- Gives project teams more focus and provides an alternative outline.
- Narrows the business alternatives.
- Identifies a valid reason to undertake the project.
- Enhances the success rate by evaluating multiple parameters.
- Aids decision-making on the project.

## **8.9 Conclusion**

This chapter helped you understand the concept of feasibility study better. To learn more about similar project management concepts. In recent decades the role of an entrepreneur has been considered of very great significance in accelerating the pace of growth and economic development in both the developed and developing countries. An entrepreneur is a person who perceives opportunities, organizes the resources needed to exploit the opportunity and sets up an enterprise. The process of setting up an enterprise is called entrepreneurship. An enterprise is a business venture. It is an undertaking that involves uncertainty and risk as well as innovation.

An individual has the right to choose any income generating activity or self-employment or entrepreneurship as a career option. Functionally income generating and self-employment activities are the initial stages of entrepreneurship. The qualities of entrepreneurship and management are present in varying degrees in both managers as well as entrepreneurs. Yet entrepreneurs are different from managers. They create opportunities for innovation, experimentation and production. Once production begins managers take over. They are more concerned with organizing the routine day-to-day jobs. They do not prefer to take risks. Entrepreneurship is a discipline with a knowledge-based theory. A person can learn and acquire the competencies of becoming an entrepreneur and start a venture and make it grow. So

the myth that entrepreneurs are born and not made can safely be dispelled. Hence there exist various, governmental as well as non-governmental, agencies to promote entrepreneurship development in turn to contribute for the socioeconomic growth of its nation.

### **Questions**

1. What do you mean by project?
2. What are the objectives of project?
3. Explain the phases of Project Life cycle.
4. What is feasibility analysis?
5. What are the major sources of business ideas?
6. What is the importance of project classification?
7. How do you identify projects
8. Explain the areas of project feasibility.
9. What are the benefits of feasibility study?

## **CHAPTER - 9**

### **9.1 Introduction**

### **9.2 Meaning**

### **9.3 Goals of Financial analysis**

### **9.4 Project cost estimation**

### **9.5 Important role in cost estimation accuracy**

### **9.6 Methods of project estimation**

### **9.7 Conclusion**

## **Financial analysis**

## 9.1 Introduction

Financial analysis is the process of evaluating businesses, projects, budgets and other finance-related entities to determine their performance and suitability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid or profitable enough to warrant a monetary investment.

## 9.2 Meaning

Financial analysis (also referred to as financial statement analysis or accounting analysis or Analysis of finance) refers to an assessment of the viability, stability and profitability of a business, sub-business or project.

It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions. Financial analysis may determine if a business will:

- Continue or discontinue its main operation or part of its business;
- Make or purchase certain materials in the manufacture of its product;
- Acquire or rent/lease certain machineries and equipment in the production of its goods;
- Issue stocks or negotiate for a bank loan to increase its working capital;
- Make decisions regarding investing or lending capital;
- Make other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

## 9.3 Goals of financial analysis

Financial analysts often assess the following elements of a firm:

**1. Profitability** - its ability to earn income and sustain growth in both the short- and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations;

**2. Solvency** - its ability to pay its obligation to creditors and other third parties in the long-term;

**3. Liquidity** - its ability to maintain positive cash flow, while satisfying immediate obligations;

Both 2 and 3 are based on the company's balance sheet, which indicates the financial condition of a business as of a given point in time.

**4. Stability** - the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of the income statement and the balance sheet, as well as other financial and non-financial indicators. etc.

## **9.4 PROJECT COST ESTIMATION**

A cost estimate is the approximation of the cost of a program, project, or operation. The cost estimate is the product of the cost estimating process. The cost estimate has a single total value and may have identifiable component values.

Project underestimation of resources and costs is one of the most common contributors to project failure. As such, project managers should be knowledgeable of and consider the various industry techniques and tools in the definition and execution of project cost estimation. As defined by the Project Management Body of Knowledge (PMBOK), cost estimation is the iterative process of developing an approximation of the monetary resources needed to complete project activities.

Project teams should estimate costs for all resources that will be charged to the project. This includes but is not limited to:

- Labor
- Materials
- Equipment
- Services
- Software
- Hardware
- Facilities

- Contingency Costs

**The following list includes common tools and techniques used in project cost estimation:**

- **Expert Judgment** – use of knowledge gained from past project management experience. Expert judgment, in conjunction with objective estimation techniques, provides valuable information about the organizational environment and information from prior comparable projects.
- **Analogous Estimating** – use of the metrics from a previous, similar project as the basis of estimation for the current project. Analogous estimating takes the actual cost of previous, similar projects as a baseline and then adjusts for known differences (such as size, complexity, scope, duration, etc.).
- **Parametric Estimating** – use of a statistical relationship between historical data and other variables (for example, lines of code in software development) to calculate an estimate for activity parameters, such as scope, cost, budget, and duration. Used correctly, this technique can produce high levels of accuracy.
- **Bottom-Up Estimating** – estimating all individual work packages/activities with the greatest level of detail, summarizing higher-level estimates with the combination of the individual estimates. The accuracy of bottom-up estimating is optimized when individual work packages/activities are defined in detail.
- **Three-Point Estimates** – use of three estimates to determine a range for an activity's cost: the best-case estimate, the most likely estimate, and the worst-case estimate.
- **Reserve Analysis** – determination of contingency reserves to account for cost uncertainty.
- **Project Management Estimating Software** – use of project management cost estimating software applications, computerized spreadsheets, simulation, and statistical tools. Such tools can allow for rapid consideration of multiple cost estimate alternatives.

- **Vendor Bid Analysis** – determination of what the project should cost based on a review of vendor bids/proposals. This technique may be used in conjunction with other cost estimation techniques to ensure that cost estimates are comprehensive.

## **9.5 IMPORTANT ROLE IN COST ESTIMATION ACCURACY**

- **Quality Management** – If team members do not agree clearly upon deliverable quality criteria early in the project, they may take longer to meet expectations, unnecessarily resulting in a schedule delay and corresponding cost overruns.
- **Communications Management** – If team members do not clearly understand their roles and responsibilities on the project, project work may take longer to complete, thus delaying the schedule and increasing costs.
- **Scope Management** – If requirements are ambiguous, team members may deliver products that do not meet expectations, resulting in unnecessary rework, schedule delays, and corresponding cost overruns.
- **Human Resource Management** – If team personnel do not possess the required skills or experience to perform project work, it may take them longer to complete the work, causing schedule delays and cost overruns.
- **Risk Management** – If team members do not proactively conduct risk management, cost impacting issues that could have been prevented may emerge.
- **Procurement Management** – If procurements do not include terms and conditions that proactively mitigate State risk (such as fixed-price contracts and deliverable acceptance criteria), the project may experience increased costs later in the project due to changing project and market conditions.
- **Time Management** – If team members do not accurately estimate the time to perform activities, the project may experience schedule delays and cost overruns.

## **9.6 METHODS OF PROJECT ESTIMATION**

Estimating projects is hard. Why? Because the only time you know precisely how long it takes to complete a project is when it's done. Up to the point of delivery, teams use educated guesswork to predict the future. And the bigger and more complex a project is, the hazier that future is. Faulty estimates mean missing deadlines and breaking budgets—two of the main symptoms of project failure.

Being a skilled estimator is a crucial part of setting schedules, establishing budgets, managing resources and running a thriving team and business. Using the best online project management software for the job is a huge help, but knowing the methods and learning how to do them well is how you become a great estimator. There are a number of estimation methodologies to choose from—and here we're going to look at five tried-and-trusted ones that work for all types of projects.

### **1. Expert judgment**

This is probably the most common way people get an estimate. Talk to the men and women with the best hands-on experience and understanding of the project requirements. Just make sure that everyone has the same understanding of what needs to be delivered. And try to find experts who will actually be working on the project.

### **2. Comparative or analogous estimation**

If your current project is similar to past ones, take the data from previous work and extrapolate it to provide your estimates for the new job. Before proceeding, make sure to check whether those projects were successful!

### **3. Top-down**

Using a high-level work breakdown structure and data from previous projects, you can add estimates for each project work item to determine the overall effort and cost. The top-down method lacks detailed analysis, which makes it best suited for a quick first-pass at a prospective project to assess its viability.

### **4. Bottom-up**

This method uses a detailed work breakdown structure, and is best for projects you're committed to. Each task is estimated individually, and then those estimates are rolled up to give the higher-level numbers. (If you use the right project management software, it will roll up the estimates for you). This process makes you think about what's required in order to take a step back to see if the big picture still makes sense. You'll receive more accurate results than the top-down method, but it's also a greater investment of time.

### **5. Parametric model estimating**

This is a more scientific method that essentially auto-calculates estimates using detailed data from previous activities. Let's say you have data from your last three office network installation projects. You can use this to get a days-per-workstation value or something similar. You then plug in the number of workstations for your new installation and out pop the estimates.

## **9.7 Conclusion**

Financial analysis can be an important tool for small business owners and managers to measure their progress toward reaching company goals, as well as



toward competing with larger companies within an industry. When performed regularly over time, financial analysis can also help small businesses recognize and adapt to trends affecting their operations. It is also important for small business owners to understand and use financial analysis because it provides one of the main measures of a company's success from the perspective of bankers, investors, and outside analysts.

### **Questions**

1. What do you mean by financial analysis
2. Explain the goals of financial analysis
3. What is project cost estimation?
4. What are the tool and techniques used in project cost estimation?
5. What is the important role of cost estimation?
6. State the methods of project cost estimation.

## **CHAPTER – 10**

### **10.1 Introduction**

### **10.2 Meaning**

### **10.3 Classification of ratios**

### **10.4 Limitations**

## **10.5 Uses of ratio analysis**

## **10.6 Types of financial ratios**

## **10.7 Problems with financial statement analysis**

## **10.8 Conclusion**

# **RATIO ANALYSIS**

## **10.1 Introduction**

Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios.

## **10.2 Meaning**

Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. A ratio is a statistical yardstick that provides a measure of the relationship between two variables or figures.

This relationship can be expressed as a percent or as a quotient. Ratios are simple to calculate and easy to understand. The persons interested in the analysis of financial statements can be grouped under three heads,

- i) owners or investors
- ii) creditors and
- iii) financial executives.

Although all these three groups are interested in the financial conditions and operating results, of an enterprise, the primary information that each seeks to obtain from these statements differs materially, reflecting the purpose that the statement is to serve.

Investors desire primarily a basis for estimating earning capacity. Creditors are concerned primarily with liquidity and ability to pay interest and redeem loan within a specified period. Management is interested in evolving analytical tools that will

measure costs, efficiency, liquidity and profitability with a view to make intelligent decisions.

### **10.3 Classification of Ratios:**

**Financial ratios can be classified under the following five groups:**

- 1) Structural
- 2) Liquidity
- 3) Profitability
- 4) Turnover
- 5) Miscellaneous.

#### **1. Structural group:**

**The following are the ratios in structural group:**

**i) Funded debt to total capitalization:** The term 'total' capitalization comprises loan term debt, capital stock and reserves and surplus. The ratio of funded debt to total capitalization is computed by dividing funded debt by total capitalization. It can also be expressed as percentage of the funded debt to total capitalisation. Long term loans

Total capitalisation (Share capital + Reserves and surplus + long term loans)

**ii) Debt to equity:** Due care must be given to the; computation and interpretation of this ratio. The definition of debt takes two foremost. One includes the current liabilities while the other excludes them. Hence the ratio may be calculated under the following two methods:

Long term loans + short term credit + Total debt to equity = Current liabilities and provisions  
Equity share capital + reserves and surplus (or)

Long-term debt to equity = Long – term debt / Equity share capital + Reserves and surplus

**iii) Net fixed assets to funded debt:** This ratio acts as a supplementary measure to determine security for the lenders. A ratio of 2:1 would mean that for every rupee of

long-term indebtedness, there is a book value of two rupees of net fixed assets: Net Fixed assets funded debt

**iv) Funded (long-term) debt to net working capital:** The ratio is calculated by dividing the long-term debt by the amount of the net working capital. It helps in examining creditors' contribution to the liquid assets of the firm.

## **2. Liquidity group:**

It contains current ratio and Acid test ratio.

**i) Current ratio:** It is computed by dividing current assets by current liabilities. This ratio is generally an acceptable measure of short-term solvency as it indicates the extent to which the claims of short term creditors are covered by assets that are likely to be converted into cash in a period corresponding to the maturity of the claims. Current assets / Current liabilities and provisions + short-term credit against inventory

**ii) Acid-test ratio:** It is also termed as quick ratio. It is determined by dividing "quick assets", i.e., cash, marketable investments and sundry debtors, by current liabilities. This ratio is a better test of financial strength than the current ratio as it gives no consideration to inventory which may be very a low- moving.

$$\frac{\text{Cash and marketable investments, sundry debtors, loans and advances}}{\text{Current liabilities and provisions}}$$

3. *Profitability Group*: It has five ratio, and they are calculated as follows:

i) Operating ratio =

$$\frac{\text{Operating expenses (cost of goods sold + Administrative and selling expenses)}}{\text{Net sales}} \times 100$$

ii) Operating profit to sales =  $\frac{\text{operating profit}}{\text{Net sales}}$

iii) Net profit to sales =  $\frac{\text{Net profit}}{\text{Net sales}} \times 100$

iv) Coverage of Earning Before interest and Taxes

v) Return on investment =  $\frac{\text{EBIT}}{\text{Capital employed}} \times 100$  (or)

$$= \frac{\text{Net profit after preference dividend}}{\text{Net worth}}$$

4. *Turnover group*: It has four ratios, and they are calculated as follows:

i) Assets Turnover =  $\frac{\text{Net sales}}{\text{Net fixed assets + Current asse}}$   
(Capital turnover)

ii) Net Working =  $\frac{\text{Net sales}}{\text{Net working capitals}}$   
(Capital turnover)

iii) Receivables turnover =  $\frac{\text{Sundry debtors}}{\text{Net sales}} \times 100$   
(collection period)

iv) inventory turnover = a)  $\frac{\text{Sales}}{\text{Ending inventory}}$   
b)  $\frac{\text{Cost of Goods sold}}{\text{Average inventory}}$

**5. Miscellaneous group:** It contains four ratio and they are as follows:

$$\text{i) Earnings price ratio} = \frac{\text{EPS}}{\text{MP}}$$

$$\text{ii) Price - earnings ratio} = \frac{\text{MP}}{\text{EPS}}$$

$$\text{iii) Dividend - yield ratio} = \frac{\text{DPS}}{\text{MP}}$$

$$\text{iv) Pay - out ratio} = \frac{\text{DPS}}{\text{EPS}}$$

$$\text{EPS} = \frac{\text{Net profit after preference dividend}}{\text{No. of outstanding ordinary shares}}$$

$$\text{DPS} = \frac{\text{Dividends for ordinary shares}}{\text{No. of outstanding ordinary shares}}$$

$$\text{MP} = \text{Market price per share}$$

#### **10.4 Limitations:**

The following are the limitations of ratio analysis:

1. It is always a challenging job to find an adequate standard. The conclusions drawn from the ratios can be no better than the standards against which they are compared.
2. When the two companies are of substantially different size, age and diversified products,, comparison between them will be more difficult.
3. A change in price level can seriously affect the validity of comparisons of ratios computed for different time periods and particularly in case of ratios whose numerator and denominator are expressed in different kinds of rupees.
4. Comparisons are also made difficult due to differences of the terms like gross profit, operating profit, net profit etc.
5. If companies resort to 'window dressing', outsiders cannot look into the facts and affect the validity of comparison.
6. Financial statements are based upon part performance and part events which can only be guides to the extent they can reasonably be considered as dues to the future.

7. Ratios do not provide a definite answer to financial problems. There is always the question of judgment as to what significance should be given to the figures. Thus, one must rely upon one's own good sense in selecting and evaluating the ratios.

### **10.5 Uses of ratio analysis**

Ratios calculated from the information in financial statements help investors in three ways:

- They simplify financial statements: Ratio analysis simply information given in companies' financial statements. Investors can easily obtain data from a few ratios instead of trying to understand entire statements.
- They help detect a problematic trend: Each type of ratio analysed over a long period can point to a defect in the functioning of a business. The analysis can also predict the future performance of a company in a particular aspect of business.
- They facilitate comparisons: Ratios not only help analyse the performance of one company but also facilitate a comparison of the performances of two or more companies within an industry or a sector.

For example, two companies in the traditional manufacturing sector can be compared on the basis of their current ratios. A company with a current ratio of 3:1 can more easily clear its current debts than one with a current ratio of 1.5:1, for example.

These ratios can be compared with the general standard current ratio for companies in this sector, which may be 2:1.

### **10.6 TYPES OF FINANCIAL RATIOS**

In the area of financial statement analysis, financial ratios are classified into the following broad categories: liquidity, solvency, efficiency, profitability, and valuation.

1. **Liquidity ratios:** Liquidity ratios show the cash availability of a company and its

ability to meet short-term dues. In other words, liquidity ratios are an indicator of a company's capacity to clear its current liabilities (liabilities that need to be cleared in a year). They indicate not only the levels of cash but also assets that can be quickly converted into cash for meeting its obligations.

**Examples of Liquidity ratios:** Quick ratio (acid-test ratio) and working capital ratio (current ratio).

The quick ratio, or the acid-test ratio, measures the capacity of a company to clear its current liabilities using only its "quick assets" (assets that can be converted into cash within 90 days, including cash itself, besides short-term investments, marketable securities, etc).

Ratio Analysis Formula: The quick ratio is calculated by adding all the current assets and dividing this figure by current liabilities.

**2. Solvency ratios:** Solvency ratios indicate a company's viability in the long term—whether it can meet its long-term obligations to creditors and sustain itself. These ratios compare the debt of a company with its equity, earnings, and assets.

**Example of Solvency ratio:** Debt-to-equity ratio.

The debt-to equity ratio relates the amount of debt taken on by a company to its equity. It shows how much of its funds have come from banks and other creditors compared with how much from its shareholders.

Formula for debt-to-equity ratio: The debt-to-equity is calculated by dividing the total liabilities by the total equity.

What does it mean to investors? The lower the debt-to-equity ratio, the better is the company's health, since funding by shareholders and other investors is often seen as better than funding by banks and other creditors.



**3. Efficiency ratios:** Efficiency ratios show how efficiently a company uses its assets to make profits or convert its inventories into cash. These ratios measure how promptly a company is able to collect cash from its clients for goods or services delivered to them on credit.

In other words, the efficiency ratios indicate how efficiently the managers in charge of day-to-day operations are manufacturing and selling products to make profits.

**Example of Efficiency ratio:** Accounts receivable turnover ratio.

**4. Profitability ratios:** Profitability ratios demonstrate how effectively a company is using its assets to gain profits.

**Example of Profitability Ratio:** Return-on-assets ratio.

The return-on-assets ratio relates the total net income of a company to the investment in its total assets during a period. It is an important index, since the ratio includes capital assets, often the largest investment for most businesses.

**5. Valuation ratios:** Valuation ratios help investors measure the value of a company stock and decide whether to buy, hold, or sell its shares. These ratios also enable them to predict the future of the stock and what returns to expect from it.

**Example of Valuation Ratio:** Price earnings ratio.

The price earnings (PE) ratio is a valuation ratio that relates the price paid for a share to the earnings from it. It shows the stock market's assessment of the value of a share of a company based on the share earnings declared.

## **10.7 PROBLEMS WITH FINANCIAL STATEMENT ANALYSIS**

While financial statement analysis is an excellent tool, there are several issues to be aware of that can interfere with your interpretation of the analysis results. These issues are:

1. **Comparability between periods.** The company preparing the financial statements may have changed the accounts in which it stores financial information, so that results may differ from period to period.

For example, an expense may appear in the cost of goods sold in one period, and in administrative expenses in another period.

2. **Comparability between companies.** An analyst frequently compares the financial ratios of different companies in order to see how they match up against each other. However, each company may aggregate financial information differently, so that the results of their ratios are not really comparable. This can lead an analyst to draw incorrect conclusions about the results of a company in comparison to its competitors.
3. **Operational information.** Financial analysis only reviews a company's financial information, not its operational information, so you cannot see a variety of key indicators of future performance, such as the size of the order backlog, or changes in warranty claims. Thus, financial analysis only presents part of the total picture.

## 10.8 Conclusion

Ratios are a powerful tool in the interpretation of the accounts and can discover issues and problems not immediately evident from the accounts and financial information provided in the annual report. They can provide the basis for inter-firm comparisons allowing managers to benchmark the performance and efficiency of the firm against its competitors. Trends can then be examined and analyzed. Stakeholders may use ratios to support their decision making. Employees, for example may use profit ratios to support pay claims and creditors can use liquidity ratios to evaluate whether debts will be repaid.

## Questions

1. What is ratio analysis?
2. Classify the financial ratios.
3. Explain the limitation of ratios
4. What are the uses of financial ratios?
5. Explain the types of financial ratios
6. Explain the problems with financial statement analysis.

## **CHAPTER – 11**

- 11.1 Introduction**
- 11.2 Meaning of Investment**
- 11.3 Stages of investment process**
- 11.4 Investment style/ Policy**
- 11.5 Investment analysis**
- 11.6 Investment valuation**
- 11.7 Right mix of investments**
- 11.8 Steps of investment management process**
- 11.9 Conclusion**

### **INVESTMENT PROCESS**

#### **11.1 Introduction**

For most of the investors throughout their life, they will be earning and spending money. Rarely, investor's current money income exactly balances with their consumption desires. Sometimes, investors may have more money than they want to spend; at other times, they may want to purchase more than they can afford. These imbalances will lead investors either to borrow or to save to maximize the long-run benefits from their income.

When current income exceeds current consumption desires, people tend to save the excess. They can do any of several things with these savings. One possibility is to put the money under a mattress or bury it in the backyard until some future time when consumption desires exceed current income. When they retrieve their savings from the mattress or backyard, they have the same amount they saved.

#### **11.2 MEANING OF INVESTMENT**

Investment is the employment of funds with the aim of getting return on it. In general terms, investment means the use of money in the hope of making more money. In finance, investment means the purchase of a financial product or other item of value with an expectation of favorable future returns.

Investment of hard earned money is a crucial activity of every human being. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Thus, it is a reward for waiting for money. Savings of the people are invested in assets depending on their risk and return demands.

Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns. Various investment options are available, offering differing risk-reward tradeoffs. An understanding of the core concepts and a thorough analysis of the options can help an investor create a portfolio that maximizes returns while minimizing risk exposure.

### **11.3 Stages of investment process**

There are 4 stages –

1. Investment style / policy
2. Investment analysis
3. Valuation process
4. Right mix of investments

### **11.4 INVESTMENT STYLE / POLICY**

This stage involves taking decisions. It involves finding answers to the following questions.

- What's the risk you're willing to take? Risk and returns are closely related. The more risk you're willing to take, the more returns you'd expect.
- Where do you stand – are you a moderate risk taker or a heavy gambler? Or are you a really risk averse person?

- How much money can you set aside to invest?
- With the money you have, what are the assets in which you can invest?
- How much time can you wait for your investments to grow?
- What are your financial objectives? Do you think that you will be able to achieve your objectives with the money you have decided to invest? If yes, have you arrived at that decision by calculating the returns at a reasonable rate?
- If your answer to the above question is ‘no’, how would you strike a balance? Will you bring down your financial goals by cutting off certain goals or would you try to increase your investable fund?
- If you decide to invest in different assets like shares, real estate, gold etc.. How much are you willing to allocate to each type of assets and why?
- Would you like your investments to be actively managed? That is, would you like to utilize the services of investments experts who would do their best to extract maximum gains for you using their expertise and experience? Are you willing to pay for their services?
- If you’ve decided to take the stock market route, would you adopt a growth investment strategy or a value investing strategy? Or would you try to strike a balance in between? Whatever may be the style you adopt, would you prefer to invest in a mix largecaps, mid-caps and small caps or would you like to stick with one category?

Finding answers to the above questions would reveal your preferred investment style.

## **11.5 INVESTMENT ANALYSIS**

A Comparative analysis of your chosen mix of investments. This would help you to decide whether the mix is optimal to achieve your goals.

- At the base level it includes the analysis of your chosen investment asset – equity, debentures, bonds, commodities, real estate etc..
- Broader level analysis would include analysis of the economy and industry, qualitative and historical analysis.

## **11.6 INVESTMENT VALUATION**

This is the most important part of investment. Valuation is the process of estimating what the assets is actually worth. Valuation can be done for all assets. It is an attempt to determine the ‘reasonable price’ at which an asset can be bought so that it increases in value over a period of time. It is quite different from the ‘market price’ which is what a willing and able buyer is prepared to pay.

For example – if a builder offers an apartment for 65 lakhs, would you blindly buy it without analyzing the builder’s track record and the facilities offered? Won’t you try to find out why he charges 65 lakhs for that apartment? Finally you would buy that apartment only if you find it attractive at that price. It is an individual decision after considering all the factors.

The same process needs to be done in any form of investment – whether it’s shares or mutual funds or commodities. You have to make sure that the asset you get is worth the money you spend.

## **11.7 RIGHT MIX OF INVESTMENTS**

Putting all the eggs in one basket is not a good idea. There are some people who think that putting it all in one is better since they can concentrate on it and escape from the trouble of carrying multiple baskets at the same time. That’s a very wrong approach in investments and it needs to be corrected.

For example – if you put your money in real estate alone, should the real estate prices crash- as we saw 3 years back, you’re locked up with no other options. Instead,

if you had your money diversified in stocks, gold, real estate etc you'd be better off since when your money goes down in some, you gain in another and thereby reduce the risk of losing all your money.

Deciding the right mix is technically called 'portfolio' and managing it to achieve maximum results- in terms of risk reduction, capital preservation and returns is called 'portfolio management'.

### **11.8 Steps of Investment Management Process**

Before investing, investment management should be done. Investment Management is a five step process. Following are the 5 steps of investment management:-

**1- Setting the Investment Objectives:-**The first and the basic step for investment is that the investor should set his investment objectives. These investment objectives vary from person to person. For example for an individual the objective may be to optimize the rate of return.

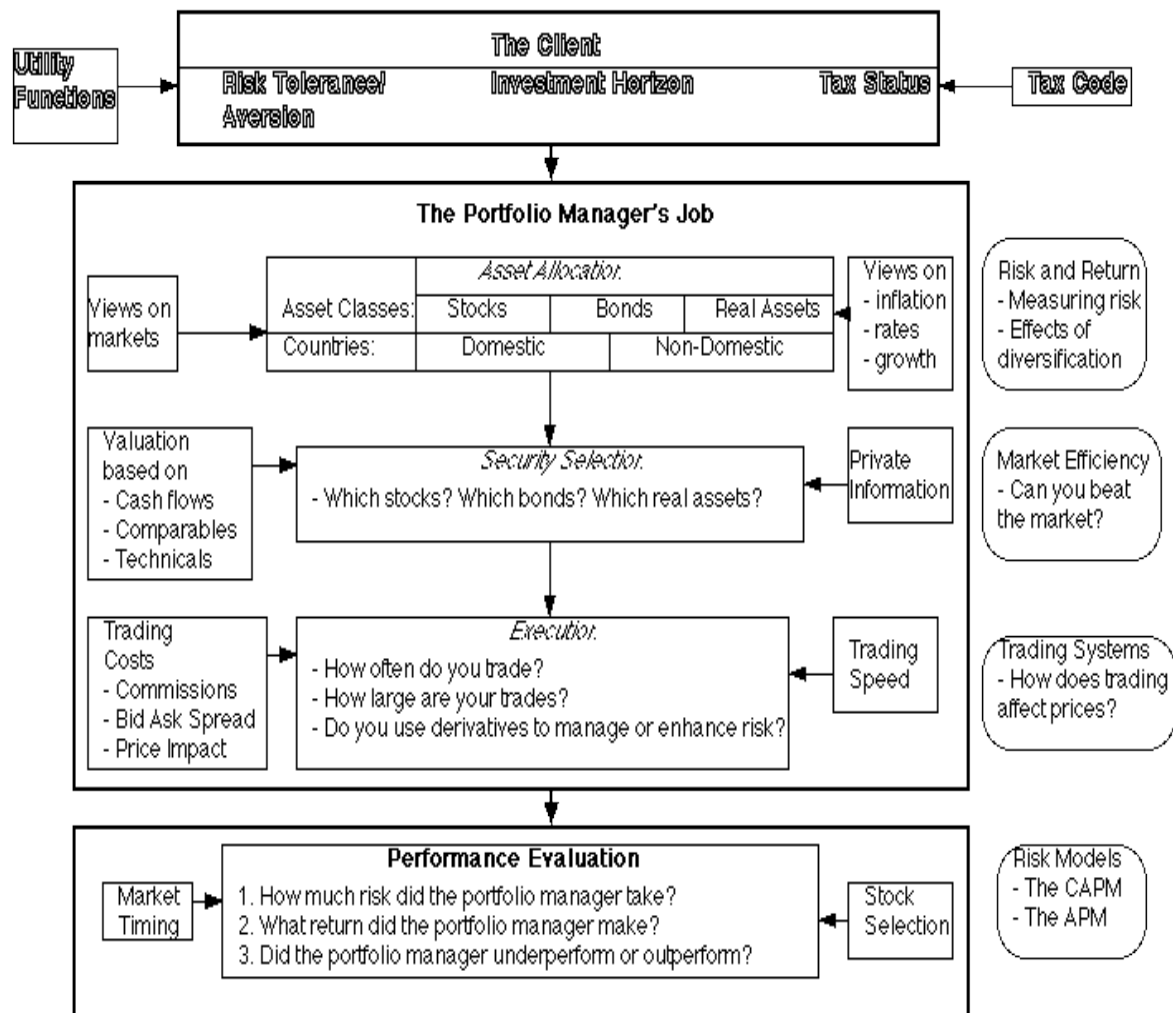
**2- Establishing Investment Policy:-**Establishing investment policy refers to the allocation of asset amongst the major allocated assets in the capital market. The range of allocated asset is from equities, debt, fixed income securities, real estate, and foreign securities to currencies. Restraint of environment and that of investor should be kept in mind while establishing the investment policy.

**3- Selecting the Portfolio Strategy:-**The portfolio strategy selected should be in accordance and in conformity with the investment objectives and investment policies. If these are not in accordance with each other then the whole investment management process will collapse.

**4- Selecting the Assets:-**The assets to be placed in the portfolio have to be selected by the investor. This is the point where real creation of portfolio will take place after the selection of assets in which to invest by the manager or investor. That asset will be selected which will give best return in available resources and which involves lowest risk. The assets can be shares, stocks, art objects, securities, gold, property etc.

**5- Measuring and Evaluating Performance:-**In this step the performance of the portfolio will be measured in comparison to the realistic benchmark or the standard set by the investor. Risk and return will be evaluated by the manager. Measuring and evaluating the portfolio will give the feedback to the investor and will in turn help the investor to improve the quality as well as the performance of the portfolio of investment.

### The Investment Process



### 11.9 Conclusion



Investment decisions are never easy. Cash flows, whether they are positive or negative, are fraught with uncertainty. Selecting the appropriate discount rate is never easy, but it has a dramatic influence on the go/no-go decision. Technical analysis using discounted cash flow techniques does not alleviate the uncertainty and does not permit hunches and intuition. One student noted that his presentation in another class was marked down because he had a hunch that a company should invest in a project, even though the NPV analysis was unfavorable. After discussing the issue for a short time, I let him in on the great secret that was revealed to me by one of my mentors after I had spent days trying to justify a modest expenditure using return on investment calculations. He told me to tinker with the numbers until they fit the desired outcome. Investment in emerging technologies and a new product line rarely result in positive NPVs unless the data have been cooked. Real options when combined with the development of a product and project portfolio can bring truth, beauty, and enlightenment into the investment process.

## **Questions**

1. What is investment analysis?
2. What are the steps involved in investment management process?

## **CHAPTER– 12**

### **12.1 Introduction**

### **12.2 Break - even analysis variables**

### **12.3 Break - even point**

- 12.4 Advantages**
- 12.5 Disadvantages**
- 12.6 Formulas**
- 12.7 Benefits**
- 12.8 Profit analysis**
- 12.9 Components of profit analysis**
- 12.10 Assumptions in profit analysis**
- 12.11 Applications of profit analysis**
- 12.12 Limitations of profit analysis**
- 12.13 Social cost benefit analysis**
- 12.14 Monetizing effects**
- 12.15 Decision's SCBA expertise**
- 12.16 Spatial economics**
- 12.17 Conclusion**

## **BREAK EVEN ANALYSIS**

### **12.1 Introduction**

Break-even analysis entails the calculation and examination of the margin of safety for an entity based on the revenues collected and associated costs. Analyzing different price levels relating to various levels of demand, an entity uses break-even analysis to determine what level of sales are needed to cover total fixed costs. A demand-side analysis would give a sellout greater insight regarding selling capabilities.

### **12.2 Break-even analysis depends on the following variables:**

1. **Selling Price per Unit:** The amount of money charged to the customer for each unit of a product or service.

2. **Total Fixed Costs:** The sum of all costs required to produce the first unit of a product. This amount does not vary as production increases or decreases, until new capital expenditures are needed.
3. **Variable Unit Cost:** Costs that vary directly with the production of one additional unit.

**Total Variable Cost** The product of expected unit sales and variable unit cost, i.e., expected unit sales times the variable unit cost.

4. **Forecasted Net Profit:** Total revenue minus total cost. Enter Zero (0) if you wish to find out the number of units that must be sold in order to produce a profit of zero (but will recover all associated costs)

Each of these variables is interdependent on the break-even point analysis. If any of the variables changes, the results may change.

**Total Cost:** The sum of the fixed cost and total variable cost for any given level of production, i.e., fixed cost plus total variable cost.

**Total Revenue:** The product of forecasted unit sales and unit price, i.e., forecasted unit sales times unit price.

**12.3 Break-Even Point:** Number of units that must be sold in order to produce a profit of zero (but will recover all associated costs). In other words, the break-even point is the point at which your product stops costing you money to produce and sell, and starts to generate a profit for your company.

One may use the JavaScript to solve some other associated managerial decision problems, such as:

- setting price level and its sensitivity
- targeting the "best" values for the variable and fixed cost combinations
- determining the financial attractiveness of different strategic options for your company

The graphic method of analysis (below) helps you in understanding the concept of the break-even point. However, the break-even point is found faster and more accurately with the following formula:

$$Q = F_C / (U_P - V_C)$$

where:

$Q$  = Break-even Point, i.e., Units of production ( $Q$ ),

$F_C$  = Fixed Costs,

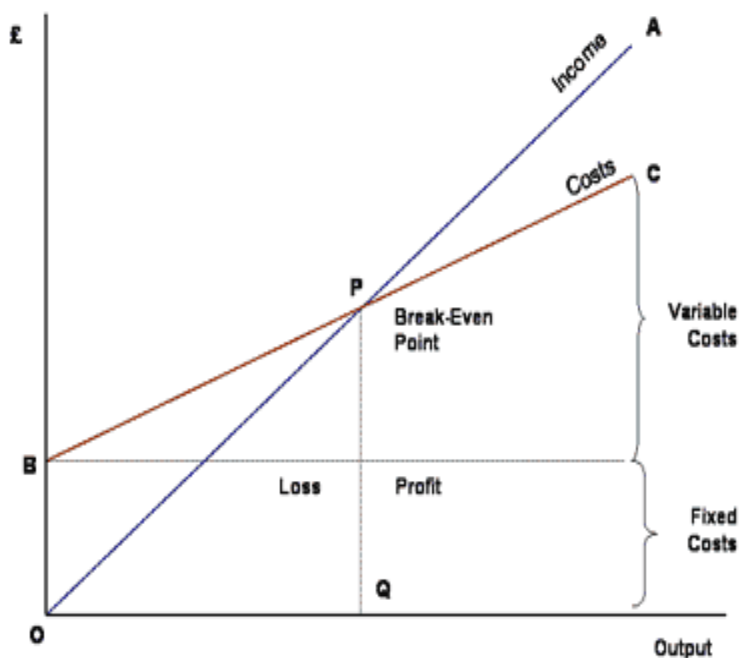
$V_C$  = Variable Costs per Unit

$U_P$  = Unit Price

Therefore,

Break-Even Point  $Q = \text{Fixed Cost} / (\text{Unit Price} - \text{Variable Unit Cost})$

You may like using the JavaScript for performing some sensitivity analysis on the above parameters to investigate their impacts on your decision-making



## 12.4 Advantages and Uses

Break-even analysis enables a business organization to:

1. Measure profit and losses at different levels of production and sales.
2. Predict the effect of changes in sales prices.
3. Analyze the relationship between fixed and variable costs.
4. Predict the effect of cost and efficiency changes on profitability.

### **12.5 Disadvantages**

Even with its advantages and uses, there are also several demerits of break-even analysis.

1. Assumes that sales prices are constant at all levels of output.
2. Assumes production and sales are the same.
3. Break even charts may be time consuming to prepare.
4. It can only apply to a single product or single mix of products.

### **12.6 Formulas**

There are two ways to calculate the break-even point, in units and in sales revenue.

1. The first way is to divide the fixed cost by the contribution per unit. This gives the result in units.
2. Divide the fixed cost by the contribution-to-sales ratio. This gives the sales revenue. The contribution-to-sales ratio is given by dividing the contribution per unit by the selling price per unit.

### **12.7 BENEFITS:**

**The following are the benefits out of break-even analysis:**

- 1. Make or buy decision:** The C-V-P analysis assists in making a choice between two courses of action to make versus to buy. If the variable cost is less than the price that has to be paid to an outside supplier, it may be better to manufacture than to buy.
- 2. Production planning:** The C-V-P analysis helps in planning the production of items giving maximum contribution towards profit and fixed costs.

**3. Cost control:** As a cost control device, the C-V-P analysis can be used to detect insidious upward creep of costs that might otherwise go unnoticed.

**4. Financial structure:** Break-even analysis provides an understanding of the behaviour of profits in relation to output. This understanding is significant in planning the financial structure of a company.

**5. Conditions of uncertainty:** When some reasonable basis for subjective extrapolation is available, the breakeven analysis provides the financial management with information helpful in its decision-making activities.

## **12.8 PROFIT ANALYSIS**

In managerial economics, profit analysis is a form of cost accounting used for elementary instruction and short run decisions. A profit analysis widens the use of info provided by breakeven analysis. An important part of profit analysis is the point where total revenues and total costs are equal.

### **12.9 Components of Profit Analysis**

The key components involved in profit analysis include:

- Selling price per unit
- Level or volume of activity
- Total fixed costs
- Per unit variable cost
- Sales mix

### **12.10 Assumptions in Profit Analysis**

The profit analysis incorporates the following assumptions:

- Unvarying sales price,
- Unvarying variable cost per unit,
- Unvarying total fixed cost,
- Unvarying sales mix,
- Units sold equal units produced.

These are largely linear and simplifying assumptions, which are frequently presumed in elementary discussions of costs and profits. In more advanced accounting treatments, costs and revenue are non linear thus making the analysis more complicated.

### **12.11 Applications of Profit Analysis**

The profit analysis is helpful in simplifying the calculation of breakeven in breakeven analysis. Besides, it is generally helpful in simple calculation of Target Income Sales. Moreover, it also simplifies the process of analyzing short run trade-offs in operational decisions.

Method adopted for Profit Analysis

The main method adopted to carry out profit analysis is the profit volume ratio which is calculated by dividing the shareholders contribution by the sales and then multiplying it by 100 as follows:

$$\text{Profit Volume Ratio} = (\text{Shareholders contribution} / \text{Sales}) * 100$$

### **12.12 Limitations of Profit Analysis**

The profit analysis is a short run and marginal analysis which presumes the unit variable costs and the unit revenues to be constant. This is, however, appropriate for small deviations from current production and sales. Besides, the profit analysis also presumes a neat division between variable costs and fixed costs, though in the long run, all costs are variable. Therefore, for longer term profit analysis considering the complete life-cycle of a product it is preferable to carry out activity-based costing or throughout accounting.

### **12.13 SOCIAL COST BENEFIT ANALYSIS (SCBA)**

A social cost benefit analysis is a systematic and cohesive method to survey all the impacts caused by an (urban) development project or other policy measure.

It comprises not just the financial effects (investment costs, direct benefits like profits, taxes and fees, et cetera), but all the societal effects, like: pollution, environment, safety, travel times, spatial quality, health, indirect (i.e. labour or real estate) market impacts, legal aspects, et cetera. The main aim of a social cost benefit analysis is to attach a price to as many effects as possible in order to uniformly weigh the above-mentioned heterogeneous effects. As a result, these prices reflect the value a society attaches to the caused effects, enabling the decision maker to form an opinion about the net social welfare effects of a project.

The social cost benefit analysis calculates the direct (primary), indirect (secondary) and external effects:

- Direct effects are the costs and benefits that can be directly linked to the owners/users of the project properties (e.g., the users and the owner of a building, recreational area, wind energy park, or highway).
- Indirect effects are the costs and benefits that are passed on to the producers and consumers outside the market with which the project is involved (e.g., the owner of a bakery nearby the new building, or a business company located near the newly planned highway, recreational area, indirect tax incomes, etc.).
- External effects are the costs and benefits that cannot be passed on to any existing markets because they relate to issues like the environment (noise, emission of CO<sub>2</sub>, etc.), safety (traffic, external security) and nature (biodiversity, dehydration, etc.).

#### **12.14 Monetizing effects**

As model engineers, we at Decisio try to quantify and monetize as much effects as possible. Effects that cannot be monetized are presented in a such a way that they can be compared.



This way, policymakers can include these effects in their final judgment if an urban planning project (or a particular variation) is worth investing in, which components of the project are causing positive or negative impacts on society and how costs and benefits are divided amongst stakeholders. The method of monetizing effects can also influence the outcome of a social cost benefit analysis and predictions will always remain uncertain. Therefore, the results of a social cost benefit analysis are not absolute. Nevertheless, it is a good instrument to investigate the strong and weak points of the different alternatives. We also always give insights in the impact of changes in the most influential assumptions to stress the robustness of outcomes.

The result of a social cost benefit analysis are:

- An integrated way of comparing the different effects. All relevant costs and benefits of the different project implementations (alternatives) are identified and monetized as far as possible. Effects that cannot be monetized are described and quantified as much as possible.
- Attention for the distribution of costs and benefits. The benefits of a project do not always get to the groups bearing the costs. A social cost benefit analysis gives insight in who bears the costs and who derives the benefits.
- Comparison of the project alternatives. A social cost benefit analysis is a good method to show the differences between project alternatives and provides information to make a well informed decision.
- Presentation of the uncertainties and risks. A social cost benefit analysis has several methods to take economic risks and uncertainties into account. The policy decision should be based on calculated risk.

## **12.15 Decision's SCBA expertise**

Some recent examples of social cost benefit studies performed by Decisions are:

## **I Cycle**

- Analysis on public and private investment in cycling. Assigned by the Borough of Merton (within the EU-program Cycle Cities)
- Workshop on social cost benefit analysis for cycling investments in Piraeus, Greece. Assigned by the EU Cycle Cities program
- Developing a social cost benefit analysis methodology for cycling investments. Assigned by the Dutch Ministry of Infrastructure and the Environment
- Social cost benefit analysis of a bicycle high way between Nijmegen, Mook and Cuijk in the east of the Netherlands. Assigned by the City region of Arnhem & Nijmegen

## **II Other infrastructure**

- Social cost benefit analysis of the Utrecht – Breda railway. Assigned by the Dutch Ministry of Transport, Public Works and Water Management)
- Social cost benefit analysis of the implementation of the European Rail Traffic Management System (ERTMS) in the Netherlands. Assigned by the Dutch Ministry of Transport, Public Works and Water Management
- Cost benefit analysis of several waterway infrastructure projects. A comparison between different investments in several waterways. Assigned by the Ministry of Transport, Public Works and Water Management
- Social cost benefit analysis on the concept of Distance Related Road Charging (ABvM) in the northern wing of the Randstad (the area around Amsterdam and Utrecht). Assigned by the Dutch Ministry of Transport, Public Works and Water Management. In association with Rebel Group
- Social cost benefit analysis of Highway A27. Assigned by RijkswaterstaatNoord-Brabant (part of the Dutch Ministry of Transport, Public Works and Water Management)

- Social cost benefit analysis of a toll project and so-called ‘speeding’ projects that intend to improve the mobility on Dutch highways. Assigned by the Dutch Ministry of Transport, Public Works and Water Management (ABvM)
- Social cost benefit analysis of the N33 (regional highway). Assigned by the Dutch Ministry of Transport, Public Works and Water Management
- Social cost-benefit analysis of ‘The Sustainable Highway’ in Rotterdam. Assigned by ROM Rijnmond, dS+V and Rijkswaterstaat-IPL (part of the Dutch Ministry of Transport, Public Works and Water Management)
- Social cost benefit analysis of the so-called Undisturbed Logistics Connection (OLV) that intends to connect three Amsterdam Connecting Trade (ACT) business locations with the cargo transshipment terminal at Amsterdam Airport Schiphol. Assigned by the Provincial Government of Noord-Holland. In association with GoudappelCoffeng, Buck consultants, Tauw, ATOS Consulting and Stratagem
- Cost benefit analysis of infrastructural investments in the ‘IJmeer-connection’, a bridge between the cities of Amsterdam and Almere. Assigned by the Regional government of Amsterdam (ROA)
- Social cost benefit analysis of infrastructure investments (highway) in the corridor Schiphol – Amsterdam – Almere. Assigned by the Dutch Ministry of Transport, Public Works and Water Management
- Social cost benefit analysis for the Dutch National Centre of Biodiversity. Assigned by the NCB (National Centre of Biodiversity)

## **12.16 Spatial economics**

- Social cost benefits analysis on options for sustainable energy ecology, tourism and transport on the Afsluitdijk (Enclosure Dam). Assigned by RijkswaterstaatIJsselmeergebied (part of the Dutch Ministry of Transport, Public Works and Water Management)
- Social cost effectiveness analysis of offshore wind energy parks in the North Sea. Assigned by the implementing body of the Dutch Ministry of Transport, Public Works and Water Management
- Social cost benefits analysis of an investment in the central theatre/congress area in The Hague. Assigned by the City of The Hague
- Social cost benefit analysis of the investment project in tourism, ecology and coastal security ‘Waterdunen’, located in the dune area in the Province of Zeeland. Assigned by the provincial government of Zeeland

### **12.17 Conclusion**

Investment decisions are never easy. Cash flows, whether they are positive or negative, are fraught with uncertainty. Selecting the appropriate discount rate is never easy, but it has a dramatic influence on the go/no-go decision. Technical analysis using discounted cash flow techniques does not alleviate the uncertainty and does not permit hunches and intuition. One student noted that his presentation in another class was marked down because he had a hunch that a company should invest in a project, even though the NPV analysis was unfavorable. After discussing the issue for a short time, I let him in on the great secret that was revealed to me by one of my mentors after I had spent days trying to justify a modest expenditure using return on investment calculations. He told me to tinker with the numbers until they fit the desired outcome.

Investment in emerging technologies and a new product line rarely result in positive NPVs unless the data have been cooked. Real options when combined with

the development of a product and project portfolio can bring truth, beauty, and enlightenment into the investment process.

### **Questions**

1. What is BE analysis?
2. What are the variable depends on BE analysis?
3. Explain the Advantages & disadvantages of Break Even Analysis
4. What are the benefits of BE analysis?
5. What are the components of profit analysis?
6. What are the applications of profit analysis?
7. What is SCBA?
8. How is the SCBA calculated?

## **CHAPTER – 13**

### **13.1 Introduction**

### **13.2 Meaning**

### **13.3 Objectives of project appraisal**

### **13.4 Significance / Usefulness / Importance of Project Appraisal**

### **13.5 Steps to a Project Appraisal**

### **13.6 Essential Characteristics of an Effective Appraisal System**

### **13.7 Project appraisal methods**

### **13.8 Conclusion**

## **PROJECT APPRAISAL**

### **13.1 Introduction**

When an organization wants to find a solution to a particular business problem and identify the best way for implementing that solution, it needs to plan and develop a project that might provide an effective action plan for addressing the problem through implementing the solution. This organization will need to give an appraisal of the potential project to make sure the project is really effective because it supports the right solution and solves the required problem. In this context, project appraisal management serves as the major process of analyzing and approving the project. In this article, I am going to write about the project appraisal process and its key steps. I hope my article will help you learn how to evaluate and appraise projects. At the end of the article I give a link to the project appraisal template, which is a more structured way of explaining the appraising process.

### **13.2 Meaning**

Project appraisal is the process of assessing, in a structured way, the case for proceeding with a project or proposal, or the project's viability. It often involves comparing various options, using economic appraisal or some other decision analysis technique.

Project appraisal is a consistent process of reviewing a given project and evaluating its content to approve or reject this project, through analyzing the problem or need to be addressed by the project, generating solution options (alternatives) for

solving the problem, selecting the most feasible option. Conducting a feasibility analysis of that option, creating the solution statement, and identifying all people and organizations concerned with or affected by the project and its expected outcomes. It is an attempt to justify the project through analysis, which is a way to determine project feasibility and cost – effectiveness.

### **13.3 Objectives of Project Appraisal:**

1. To extract relevant information for determining the success or failure of a project.
2. To apply standard yardsticks for determining the rate of success or failure of a project.
3. To determine the expected costs & benefits of the project.
4. To arrive at specific conclusions regarding the project.

### **13.4 Significance / Usefulness / Importance of Project Appraisal**

1. It helps in arriving at specific & predicted results.
2. It evaluates the desirability of the projects.
3. It provides information to determine the success or failure of a project.
4. It employs existing norms to predict the rate of success or failure of a project.
5. It verifies the hypothesis framed for the project.

### **13.5 Steps to a Project Appraisal**

A 360-degree appraisal can supplement traditional performance appraisal systems when evaluating a project's time, costs and quality factors. It is an evaluation approach that focuses on gathering data, information and opinions from different sources.

This includes feedback from the project manager, project team members, partners, vendors, clients, customers and end-users. One of the strengths identified with this approach is that it provides a better-rounded picture of performance and can assist project stakeholders become more aware of strengths and weaknesses for purposes of best-practice development.

## **1. Time Management**

In addition to traditional evaluations of scheduling charts and report estimates against actual performance, time management assessments may include giving project team members surveys and questionnaires to assess the effectiveness of project scheduling and time-scale performances. Project feedback questionnaires may also evaluate the strengths and weaknesses with time management techniques used to develop project milestones and schedule other project components.

## **2. Project Budgets**

Traditional budget tracking techniques include variance analysis, which assesses differences between budget estimations against final project expenditures. The 360-degree appraisal supplements may solicit additional feedback from project team members related to budget allocations. Additionally, a project-end survey can be developed to provide a cost-benefit analysis that evaluates the perceived value or rate of return for each element of the project budget.

## **3. Team Performance**

When auditing project staffing, a key question is whether the people assigned to the project were qualified. This includes the project manager and project team members. Project team members can complete a group assessment and self-assessment related to key project performance areas. For example, a self-assessment can give project members an opportunity to evaluate the effectiveness of project assignments. Also, project end-users, customers, clients and vendors can give feedback on team member performance based on their contact with the project manager and project team members.

## **4. Vendor Management**

Vendor performance is also a part of a project audit. The level of vendor involvement in a project will vary widely from one project to another. There may be a formal set of procedures in place related to vendor performance expectations. If so, develop a performance metric survey from the procedures that can be completed by the project



manager to evaluate timeliness, quality and costs factors. Also, project team members with direct contact with certain vendors can provide input on vendor performance.

### **13.6 Essential Characteristics of an Effective Appraisal System**

Performance appraisal system should be effective as a number of crucial decisions are made on the basis of score or rating given by the appraiser, which in turn, is heavily based on the appraisal system. Appraisal system, to be effective, should possess the following essential characteristics:

#### **1. Reliability and validity**

Appraisal system should provide consistent, reliable and valid information and data, which can be used to defend the organization – even in legal challenges. If two appraisers are equally qualified and competent to appraise an employee with the help of same appraisal technique, their ratings should agree with each other. Then the technique satisfies the conditions of inter-rater reliability. Appraisals must also satisfy the condition of validity by measuring what they are supposed to measure. For example, if appraisal is made for potential of an employee for promotion, it should supply the information and data relating to potentialities of the employee to take up higher responsibilities and carry on activities at higher level.

#### **2. Job relatedness**

The appraisal technique should measure the performance and provide information in job related activities/areas.

#### **3. Standardization**

Appraisal forms, procedures, administration of techniques, ratings, etc., should be standardized as appraisal decisions affect all employees of the group.

#### **4. Practical viability**

The techniques should be practically viable to administer, possible to implement and economical to undertake continuously.

### **5. Legal sanction**

Appraisals must meet the laws of the land. They must comply with provisions of various acts relating to labor.

### **6. Training to appraisers**

Because appraisal is important and sometimes difficult, it would be useful to provide training to appraisers viz., some insights and ideas on rating, documenting appraisals and conducting appraisal interviews. Familiarity with rating errors can improve rater's performance and this may inject the needed confidence in appraisers to look into performance ratings more objectively.

### **7. Open communication**

Most employees want to know how well they are performing the job. A good appraisal system provides the needed feedback on a continuing basis. The appraisal interviews should permit both parties to learn about the gaps and prepare themselves for future. To this end, managers should clearly explain their performance expectations to their subordinates in advance of the appraisals period. Once this is known, it becomes easy for employees to learn about the yardsticks and, if possible, try to improve their performance in future.

### **8. Employee access to results**

Employees should know the rules of the game. They should receive adequate feedback on their performance. If performance appraisals are meant for improving employee performance, then withholding appraisal result would not serve any purpose.

Employees simply cannot perform better without having access to this information. Permitting employees to review the results of their appraisal allows them to detect any errors that may have been made. If they disagree with the evaluation, they can even challenge the same through formal channels.

## **9. Due process**

It follows then that formal procedures should be developed to enable employees who disagree with appraisal results (which are considered to be inaccurate or unfair). They must have the means for pursuing their grievances and having them addressed objectively.

### **13.7 PROJECT APPRAISAL METHODS**

Project appraisal methodologies are methods used to assess a proposed project's potential success and viability. These methods check the appropriateness of a project considering things such as available funds and the economic climate. A good project will service debt and maximize shareholders' wealth.

1. **Net Present Value:** A project's net present value is determined by summing the net annual cash flow, discounted at the project's cost of capital and deducting the initial outlay. A decision criterion is to accept a project with a positive net present value. Advantages of this method are that it reflects the time value of money and maximizes shareholder's wealth. Its weakness is that its rankings depend on the cost of capital; present value will decline as the discount rate increases.

2. **Payback Method:** A company chooses the expected number of years required to recover an original investment. Projects will only be selected if initial outlay can be recovered within a predetermined period. This method is relatively easy since the cash flow doesn't need to be discounted. Its major weakness is that it ignores the cash inflows after the payback period, and does not consider the timing of cash flows.

**3.Internal Rate of Return:** This method equates the net present value of the project to zero. The project is evaluated by comparing the calculated Internal rate of return to the predetermined required rate of return. Projects with Internal rate of return that exceed the predetermined rate are accepted. The major weakness is that when evaluating mutually exclusive projects, use of Internal rate of return may lead to selecting a project that does not maximize the shareholders' wealth.

**4.Profitability Index:** This is the ratio of the present value of project cash inflow to the present value of initial cost. Projects with a Profitability Index of greater than 1.0 are acceptable. The major disadvantage in this method is that it requires cost of capital to calculate and it cannot be used when there are unequal cash flows. The advantage of this method is that it considers all cash flows of the project.

### **13.9 Conclusion**

A performance appraisal is one of the most important factors in any organization and also a great tool used to record productivity. Every organization has to have goals and objectives established and every employee has to be involved in the process. Also conducting a performance appraisal will improve productivity and also the morale of the employees. Appraisals are a positive way for a manager to let the employees know how well they are performing the duties that are assigned to them. Sometimes we get caught up in our job and do not realize what all the company strives to do for employees. Whether the reward is a lousy employee dinner and or a simple thank you card, your work is being recognized. Also, employees should be thankful for any job they may have, because the company did not have to hire on any means.

### **Question**

1. What do you mean by project appraisal?
2. Explain the major steps of project appraisal
3. What are the essential characteristics of effective appraisal system?
4. Explain the methods of project appraisal

## **CHAPTER– 14**

## **14.1 Introduction**

## **14.2 Meaning**

## **14.3 Format for project reports**

## **14.4 Components of project reports**

## **14.5 Conclusion**

# **PREPARATION OF PROJECT REPORT AND PRESENTATION**

## **14.1 Introduction**

The project report is the formal record of the entire process you undertook to complete your Personal Project.

The report is the place where you bring together and summarise your thinking, process and creation that helped you to complete your product. You plan and organise the information, your Process Journal will be extremely important at this point as it will contain all the information you need to complete the report, if you have used it consistently.

## **14.2 Meaning**

A project at the outset must bear a logical appearance, which it can get only after the feasibility test. Project report is a document, which clearly narrates the various aspects of project in a prescribed form. Project report preparation is a post investment decision exercise.

It involves the preparation of detailed specifications and designs for the project premises, detailed design of the process or other equipment and time schedules for the implementation of the project. Hence, the detailed project report is the work plan for the implementation of a project once an investment decision is arrived at. A project report is meant to provide the necessary information, which may be required for the purpose of processing and assessing the proposal for getting the financial assistance from the financial institutions.

## **14.3 FORMAT FOR PROJECT REPORTS**

The project reports should be like conference papers: concise and focusing on what you did.

**Format:** Use 1 inch margins (left and right), 1 inch margins (top and bottom), 11 point time's font for the main text, and use 10 point courier font for computer code. Use your judgment for other situations (for example indented, italics, and 10 point courier font for quotations). Single space your text. Make the text fully-justified (where the letters are aligned on both the left and right). The text should be in 2-columns, with 3/8 of an inch of space between columns. Your paper should be 4 pages long. Having only 3 pages is fine, as long as the content is good. Anything 6 pages or longer will not be graded.

If you want to use Latex, here are two examples with the formatting already done. You can just remove the text that you do not need. You will also need either the `ieee.cls` class file or the `IEEEconf.cls` class file. Just download both class files until you decide which one you like.

1. Example final report, journal style .tex file and its output.
2. Example final report, conference style .tex file and its output.

You are allowed to have appendices, as needed. Appendices are mainly for code or mathematical derivations. Appendices do **not** count in the page count. For example, if you have 4 pages of report, you may also turn in an appendix that is as long as you like. The appendix should be like a separate document, with your name(s) on it. Attach it physically to the report, e.g. with a binder clip.

**Yes, your code should be in the appendix, monospaced, single column.** You do not have to turn in all code used in your experiment; use your best judgment. You may want to include only relevant sections of code. For example, you should not include code that someone else wrote, unless you made major modifications. If your code is 100 pages, you should not print all of it. If your code is 6 pages, then you should print all of it.

If you include a work-log, you can put it in the appendix. Or you could incorporate it into one of the sections of the report, if it is appropriate. The references must be in the same 2-column format as the rest of your paper.

You can use this PDF example, but follow the instructions below. If you want to use LaTeX, here are directions and an example file you can use as a template.

- Under authors' names, instead of address put the Class name, number, date, and instructor
- Abstract should be no more than 150 words.

The abstract is a short summary of the paper. If you had to re-state what your paper says in 150 words or less, what would you say?

For a conference paper, most people will read the abstract to see if they find it interesting enough to read the whole paper. This makes a lot of sense if you go to a conference in a topic that interests you, but find that there are 100+ other papers.

**The abstract LAST, since it is easier this way.**

- Introduction
  - Why your topic is important (convince us!)
  - Where is it used? Applications
  - What you will talk about/do
  - Overview of the rest of your paper (section 2 covers...section 3 presents...)
- Background
  - Any relevant and specific info  
e.g. hardware statistics, equipment used
  - What other people had to say on this topic(s)  
(be sure to cite your references, and quote as appropriate)

- You are expected to discuss the books and papers that you include in your references. You must also cite them. If nothing else, include a brief rationale explaining why you thought it was useful.
- What other people did on this topic (or related topics)
- Problems and shortcomings of their work
- How your work is different and better
- Project
  - Your approach to the problem
  - What you did
  - Design
    - what you already had (and where it came from)
    - What you added/ changed
    - for parts, include close-up drawings (e.g. Magic screenshots)
  - What did/didn't work?
  - Include graphs, equations, pictures, etc. as appropriate
  - Results
 

Include relevant observations, measurements, and statistics. For example, for the VLSI Class: Include statistics such as timing information if available by simulation, or if not, your own analysis about critical path, delays, and clock cycles. Be sure to include size information: the total size of the circuit measured ( $X \lambda$  by  $Y \lambda$ ), and the transistor count.
- Summary
  - Try to draw together the intro, background, and project sections.
  - How do they all relate together? (They may appear to be disjoint sections to an unfamiliar reader).
  - Restate important results



- Conclusions
  - What was accomplished / learned
  - What you would have done differently
  - Future work
  
- References
  - You should include a number of books and papers that were useful. If no number is specified, then include at least 5 books or papers. (If this is a group project, include at least 5 per person.) WebPages do not count toward this minimum number. Wikipedia is not appropriate, and you will be penalized if you include it.
  - Cite the papers/books that you used
  - Anything you found useful
  - Include textbooks from class if you want

**Each team member must submit an individual report.** It is possible to refer to someone else's report, such as a team member. But you must document that report like you would any other source. You can quote from it, as long as you enclose it in double-quotes, and put the citation after it.

**Things to include in the report:**

- Pictures
- Your observations and measurements
- Equations
- Graphs
- Figures
- Simulation, model (E.g. our design took 200 cycles to do task #1. We ran it 10 times, and the time for each run is: 12, 15, 16, 14, 13, 15, .. Therefore, we expect the second task, which is twice as long, to take about 30 sec).

Note: If you use color graphs, make sure you use a color printer when printing the report! I have seen several reports that say things like "the blue dots represent ..., while the red ones represent...", only to have the figure printed in grey-scale.

## **14.4 COMPONENTS OF PROJECT REPORT**

The following are the important headings under which the complete information on relevant aspects should be included for a small scale industry's project report.

1. General information
2. Rationale
3. Project description
4. Market potential
5. Capital expenditure and sources of finance
6. Assessment of working capital requirements
7. Other financial factors
8. Government and other statutory approvals
9. Economic and social variables

### **1. General Information**

The following aspects should be given in the stage, which are of general Nature

- Name and address of the entrepreneur
- The qualifications, experience and other capabilities of the entrepreneur. If it is a partnership firm, these information of other members should also be given.
- A small reference of analysis of industry to which the project belongs e.g. past performance, present status, the way of organization, the problems etc.
- The organizational structure of the enterprise
- The utility of the product and the range of products to be manufactured

## **2. Rationale**

As mentioned earlier a project may have several objectives subsidiary to the prime objective of making profit. As a first step in project evaluation, it is essential that one looks at the broad rationale of the project proposal to ensure that the project is appropriate and justified. As an example, one could say that modernization or pollution control may be fully justified on grounds of survival and environmental protection even if, in the short-term, the project expenditure may adversely affect the financial criteria of project evaluation. On the other hand, a project which would improve the earnings per share or the debt service cover or the production efficiency may not necessarily be justified if all this is to be achieved at the expense of national interest or public interest.

## **3. Project Description**

A brief description of the project covering the following aspects should be given in the project report.

**SITE:** Location (Town, Complete address) whether owned or leasehold land, whether the site is approved industrial area? Is it suitable for the product under review.

## **4. Input Factors**

**Raw materials:** What are the sources of raw materials? Are they locally available? Whether imported raw material is also required? If so, whether license has been obtained? Is it suitable to get quality raw materials continuously at reasonable prices? The availability, quality critically and quality compatibility of the raw material with the technology as well as the plant and machinery are important factors to be clearly understood while evaluating a project especially those in hi-tech area.

This element is also intimately linked to many other elements in a project and can force necessary changes in them to ensure the viability of the project.

As a simple example, one can easily surmise that a raw material with a high volume to weight ratio will indicate the plant is located near the source of raw material. e.g. Cement, power (coal based).

On the other hand, if the value added in such a case is very high, then it may be possible or even necessary to locate the plant away from the source of raw materials. Textiles, power (gas based or oil based), processed foods like snack foods, ice creams are some of the pertinent examples. The characteristics of the raw materials are multivariate and not just on the volume weight ratio. It is imperative therefore that this element gets a careful consideration while assessing a project. The market, the management, and the utility needs of the projects also influence the locational decisions.

**Labour:** What is the type of labour required? Whether skilled or unskilled? Are they available in that area? If not, what arrangements have been made to recruit and train the labour in various skills?

**Power:** Inadequate supply and high cost of electricity is a major problem now-a-days. So, the project report should contain the information regarding the power requirements, the load sanctioned, stability of supply of power and the price at different consumption level.

**Fuel & water:** Whether the fuel systems like coal, coke, oil or gas are required and if yes, then state their availability position. Similarly water is an important factor. The source and the quality of water should be clearly stated.

**Waste discharge:** Most of the plants produce waste material or emissions that may result in many health problems to the public. The emissions and discharge may be various types like (a) gaseous (smoke, fumes, dust etc.) by physical (noise, heat, vibration etc.) or (c) liquid or solid discharged through pumps and sewers. Hence, it should be clearly stated that the arrangements made from these things.

## **Communication and Transport Facilities**

Availability of communication facilities like telephone, telex and post and telegraph department, should be stated in the report. Similarly, transport is a basic necessity for industries. Raw materials as well as finished products have to reach destination only through a good transport systems available. So, the various transport facilities available in that should be clearly stated. Similarly availability of facilities like machine shops, welding shops and electrical repair shops etc., should also be stated.

## **List of Machinery & Equipment**

A complete list of items of machinery and other equipment's indicating their type, size and cost should be stated. Source of supply of capital equipment and the construction services should also be given.

The source of plant and machinery as also the specification for the same can often make or break a project. It is, therefore, equally important to evaluate the plant and machinery which is to be installed at the project. The reputation of the supplier and references to place where such/similar plant and machinery are installed is a good starting point while assessing this element.

### **i. Capacity & Technology**

The installed and licensed should be stated and the number of shifts likely to follow should be stated. Similarly, Is the technology up to date and appropriate? Which other units are using the same technology and with what results? How the required know-how is proposed to be arranged?

The level of technology in terms of its "state of art" or obsolescence, adaptability to the local conditions, maintenance and reparability, sophistication in management and control are elements which have a significant impact on the quality and quantity of production that is envisaged in the project. It is thus necessary to have a clear understanding about the technology which is to be utilized in the project.

It is pertinent to note that there are no hard and fast rules but “appropriateness” and “relevance” are the two key operative words while assessing a technology proposed for the project. It is ridiculous to propose a highly sophisticated, push button control technology in a place where electricity supply follows its own rules or where a simpler technology is better understood and more manageable. Equally, it would be disastrous to recommend an obsolete technology on account of its durability or time tested proof of performance when everyone else is fast discarding it.

This technology element is linked to every other element in the project proposal and these linkages also need to be looked into as an essential step in assessing the technology. One of the technologies available may necessitate creation of large capacity not necessarily advisable given the current raw material supply or the market size for the product.

For example, a capacity of 100 tpa for manufacture of paper starting from pulp or even hard wood or bamboo could be considered an or even the “minimum economic” size leading to acceptance of a particular technology which gives maximum efficiency at 10 tpa. But if raw material proposed is “agricultural waste” a whole lot of new considerations starting from collection and storage or raw materials come into play necessitating appropriate changes in the plant size and even perhaps the technology. Similar situations can arise in linkages of technology to management, availability of utilities, and cost of the project.

## **ii. Quality Control**

What is the system arranged for to check the quality of products on continuous basis? The quality marks like ISI, Agmark will enhance the values of the product as well as confidence among the consumers. If it is desired to get quality markings, the fact should be included in the project report.

## **5. Market Potential**

**i. Estimation of Demand & Supply:** Facts regarding the anticipated demand for product and the level of supply, should be clearly stated. An estimate of manufacturing and administrative expenses together with the price expected along with the margin of profit should be stated.

**ii. Marketing strategy:** What is the strategy adopted for marketing the product should be stated. Whether the products are to be supplied to the reputed sellers directly or distributors? Is there any possibility of getting a contract from the reputed concerns should also be stated in this project report. Similarly whether after sales service has been arranged and how to fill the gap of demand if there is fluctuations in the sales seasonal demand arrangements made for warehousing the products.

## **6. Capital Expenditure and Sources of Finance**

**Cost of the project:** Since each project is profit motivate it is important that cost of the project is carefully assessed and evaluated. One of the most important factors in this assessment is the level of accuracy in the cost estimates, which in addition to proper data collection also depends upon the approach and the attitude of the evaluator himself. Some evaluators tend to see all cost estimates as “too high” leading to unnecessary under estimation of the project cost and consequent problems in project implementation and even project viability. On the other hand some evaluators tend to provide “cushions” at all levels of cost estimates which may erode the viability of the project on paper leading to a wrong decision on the issue of project selection and implementation.

An estimate regarding this various capital inputs required by the industry should be given. Those capital items include the following:

1. Land & Building
2. Plant and machinery
3. Preliminary expenses

4. Miscellaneous assets
5. Price escalation
6. Working capital limit

**Means of financing:** Having established the cost of a project as justified and reasonable, it is necessary to evolve the means of financing the project. It should be acceptable within the framework of the financial system and sufficiently attractive/or safe enough for the investor lender to come forward and extend the necessary assistance.

During the last decade, financial scenario in India has undergone substantive, qualitative as well as quantitative change almost amounting to a metamorphosis. As a result the project prosperity has a fairly wide range of means of finance available to him to choose from. Instead of a standard debt-equity ratio of 2:1, the promoter taking up 50% to 75% of the equity, the balance being offered to the public and the financial institutions and banks picking up the tap for the debt component.

The promoter can now think of a variety of instruments like equity cumulative convertible preference shares fully or partly or non-convertible debentures, as means of financing and also many other sources of funds like mutual funds, venture finance and lease finance. A clear understanding of the various elements and the various institutions operating in the financial system would help to assess the appropriateness of the means of finance. The cost of raising and servicing funds, and other terms and conditions accompanying funds, as all these have a direct impact on the viability of the project. At this juncture, it is worthwhile noting that the project evaluation should also pay due attention to the ethics of fund raising especially if the means of finance involves premium carrying instruments.

## **7. Assessment of Working Capital Requirements**

Many industries fail due to improper estimate of working capital requirements. It is very crucial to an entrepreneur. The unit could function only if



the working capital limit is maintained properly. So, the working capital requirements should be very carefully calculated and stated in the project report.

### **8. Other Financial Aspects**

It should be found out that the product taken up for production is profitable. For this, profit & Loss A/c an estimated one should be prepared, which shows sales revenue, cost of production and other costs and profit. Similarly a projected balance sheet and cash flow statement should be prepared to indicate financial position and financial requirements.

There should be always availability of funds for the smooth functioning of the unit. Next the break-even analysis must be given break-even point is that level of production sales where the industrial enterprise shall make no profit no loss. This break even analysis facilitates knowing the gestation period and the likely moratorium required for repayment of loan.

The return from a project is a very essence of evaluating a project especially as the prime motive for setting up a project is its profitability. The project return is to be assessed in terms of cost of production realizable selling price, financial charges, depreciation taxes and host of other financial and non-financial variables.

### **9. Government and Other Statutory Approvals**

The project is not put up in a vacuum but in the real world which is subject not only to procedural requirements but also to policy guidelines and stipulations. These requirements, guidelines and stipulation could begin with the very permission to establish a project and go across various economic statutes of a country governing several aspects of a project.

The project evaluation must take all these into account, not merely as an element of feasibility or otherwise of setting up the project but as part of the plan extending over the economic life of the project.

### **10. Economic and Social Variables**

Among other things, what will be the abatement costs to control pollution and treating for the effluents and emissions, should be stated. Added to this, whether the project derives home some social benefits like the following:

It promotes an increases the employment potential in that area

It promotes an encourages smaller units (tiny sector) to grow

It effects overall development of that area

### **Economic and National Significance of the Project**

Many projects have an economic and/or a national significance especially if they are in the area of hi-tech, import substitution, export orientation, defense and/or involve substantive outflow of foreign currency either for technology know-how or for raw materials. It is necessary to evaluate the economic and the national significance of a project is to be made acceptable in the prevalent economic scenario.

### **Social and Environmental Consideration**

While setting up a project, issues not necessarily connected with the financial profitability of the project but to the environment and society as a whole have become important in more than one case. These issues relate to environmental pollution and safety as also different segments of the society coming in contact with the activities of the project.

Two models of project report are given at the end of this lesson.

### **Project Report Vs. Feasibility Report**

The detailed project report differs from feasibility report in the following manner:

**Objective:** Feasibility report's aim is to serve the top management in arriving at feasible and viable project alternatives. Detailed Project Report's focus is to communicate formally about the project sponsor's decision on a specific project to the government departments and financial institutions for seeking their approvals and funding.

**Scope of information Management:** The interests of the management can be met by collecting relevant information in vital areas of technical, economic, commercial and environmental areas at the onset. However, about 70-80% information may be collected and analysed in feasibility studies based on which certain reliable forecasts are made and decisions are taken by the management.

## **14.5 Conclusion**

The conclusions section provides an effective ending to your report. The content should relate directly to the aims of the project as stated in the introduction, and sum up the essential features of your work. Now it is time to draw conclusions. Include your suggestions that you think can solve the problem. You should not generalise your observations/conclusions or derive big conclusions as you are working in a small area with a small sample size.

Thus, Project report is a precise formal document of commitment prepared and presented by sponsors of a project. On the basis of this report, the Project Investment Board and Cabinet Committee on economic affairs of the concerned Ministry Proffer their exoneration of the project proposals. The preparation of detailed project report is the preliminary phase of a project life cycle. The preparation of project report starts only after the investment decision is made on the basis of the technical, economic and financial feasibility studies, so that expensive efforts involved in the preparation of report are not wasted.

## **Question**

1. What is project report?
2. State the format for project report
3. What are the components of project report?
4. Distinguish between project report and feasibility report?

## **UNIT – IV**

### **CHAPTER– 15**

#### **15.1 Introduction**

#### **15.2 Meaning**

#### **15.3 Project Finance - Key Concepts**

## **15.4 Off- Balance Sheet**

## **15.5 Non- Recourse Financing**

## **15.6 Sources of Finance**

## **15.7 Conclusion**

# **PROJECT FINANCE**

## **15.1 Introduction**

Project finance is the financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure, in which project debt and equity used to finance the project are paid back from the cash flow generated by the project.

## **15.2 Meaning**

Project finance is the long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors. Usually, a project financing structure involves a number of equity investors, known as 'sponsors', a 'syndicate' of banks or other lending institutions that provide loans to the operation. They are most commonly non-recourse loans, which are secured by the project assets and paid entirely from project cash flow, rather than from the general assets or creditworthiness of the project sponsors, a decision in part supported by financial modeling.<sup>[1]</sup> The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets and are able to assume control of a project if the project company has difficulties complying with the loan terms.

## **15.3 Project Finance - Key Concepts**

One of the primary advantages of project financing is that it provides for off-balance-sheet financing of the project, which will not affect the credit of the shareholders or the government contracting authority, and shifts some of the project

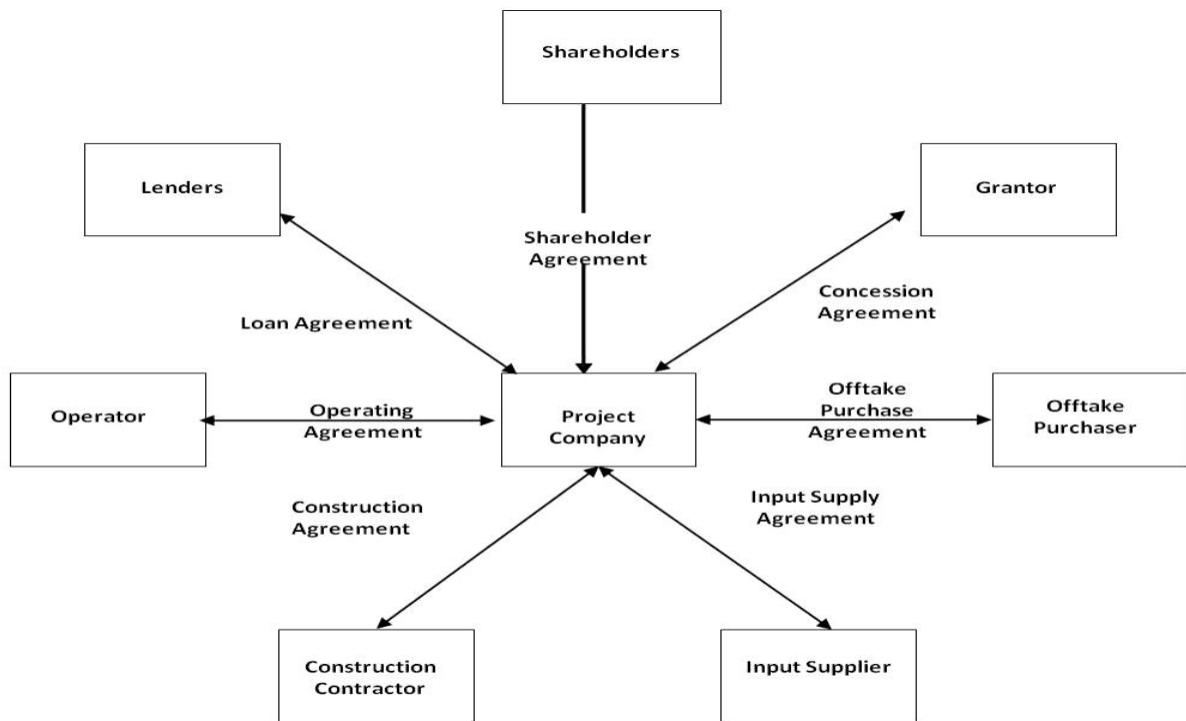
risk to the lenders in exchange for which the lenders obtain a higher margin than for normal corporate lending.

- Typical Project Finance Structure
- Off-Balance-Sheet
- Non-Recourse Financing

#### Typical Project Finance Structure

The typical project financing structure (simplified for these purposes) for a build, operate and transfer (BOT) project is shown below. The key elements of the structure are:

- Special purpose vehicle (SPV) project company with no previous business or record;
- Sole activity of project company is to carry out the project – it then subcontracts most aspects through construction contract and operations contract;
- For new build projects, there is no revenue stream during the construction phase and so debt service will only be possible once the project is on line during the operations phase (parties therefore take significant risks during the construction phase);
- Sole revenue stream likely to be under an off-take or power purchase agreement;
- There is limited or no recourse to the sponsors of the project (shareholders of project company are generally only liable up to the extent of their shareholdings);
- Project remains off-balance-sheet for the sponsors and for the host government.



As can be seen, there are a number of contracts and the arrangements are complex. The interrelation between the different parties needs to be carefully provided in the agreements.

### 15.4 Off-Balance-Sheet

Project financing may allow the shareholders to keep financing and project liabilities off-balance-sheet. Generally, project debt held in a sufficiently minority subsidiary is not consolidated onto the balance sheet of the respective shareholders. This reduces the impact of the project on the cost of the shareholder's existing debt and on the shareholder's debt capacity, allowing the shareholders to use their debt capacity for other investments. Clearly, any project structure seeking off-balance-sheet treatment needs to be considered carefully under applicable law and accountancy rules.

To a certain extent, the government can also use project finance to keep project debt and liabilities off-balance-sheet, taking up less fiscal space. Fiscal space indicates the debt capacity of a sovereign entity and is a function of requirements

placed on the host country by its own laws, or by the rules applied by supra- or international bodies or market constraints, such as the International Monetary Fund (IMF) and the rating agencies. Those requirements will indicate which project lending will be treated as off-balance-sheet for the government.

Keeping debt off-balance sheet does not reduce actual liabilities for the government and may merely disguise government liabilities, reducing the effectiveness of government debt monitoring mechanisms. As a policy issue, the use of off-balance-sheet debt should be considered carefully and protective mechanisms should be implemented accordingly. For more on management of government risks and contingent liabilities, go to Management of Government Risks.

### **15.5 Non-Recourse Financing**

Recourse financing gives lenders full recourse to the assets or cash flow of the shareholders for repayment of the loan in the case of default by the SPV. If the project or SPV fails to provide the lenders with the repayments required, the lenders will then have recourse to the assets and revenue of the shareholders, with no limitation.

Project financing, by contrast is “limited” or “non-recourse” to the shareholders. In the case of non-recourse financing, the project company is generally a limited liability special purpose project vehicle, and so the lenders' recourse will be limited primarily or entirely to the project assets (including completion and performance guarantees and bonds) in the case of default of the project company. A key question in any non-recourse financing is whether there will be circumstances in which the lenders do have recourse to part or all of the shareholders' assets.

The type of breach of covenant or representation which gives rise to this would typically be a deliberate breach on the part of the shareholders. Applicable law may also restrict the extent to which shareholder liability can be limited, for example liability for personal injury or death is typically cannot be limited.

**These are five areas where financial institutions can use unique innovative data sets to improve their business:**

### **1) Cost efficiencies**

Reducing cost, or doing more with the same number of employees, is on everyone's mind these days. Look at the tasks your team performs and determine which ones are repetitive. Are they searching for information when they could be spending time analyzing it? Does the information come right to them, when they need it, in a customizable way?

### **2) Driving more revenue**

You can drive a more complete understanding of your clients and prospects by understanding the whole picture. By combining the account information you may already have, you can use what is going on in the broader market to see what companies are doing. If you are in wealth management, money flows can be seen by company acquisitions, stock sales, and compensation changes. For corporate bankers, company intentions (even those of competitors) can be detected. Companies often publish their intentions far in advance of acting which, when known, is a topic for discussion. You can also use data to know your clients faster. Heading into a client meeting? Don't be caught flat-footed offering to handle the deal that they did that morning. Be informed. Get the information sent right to your mobile device.

### **3) Compliance**

Regardless of the specific regulatory laws you may be facing, my experience - both with data and when I was in banking - suggests being proactive has great benefits when working with regulators.

One way you can be proactive is to adopt new datasets and new ways of leveraging that data. Produce a report before they ask. Look at something from a different angle, and explain why this gives additional perspective. Document and communicate those thoughts.



#### **4) Risk Management**

We never expect machines and software to replace human thought in any area, especially risk management. However, great efficiencies can be achieved by easy and current access to data. Leveraging a new dataset that you didn't have before gives you additional visibility or a new way of looking at a risk.

#### **5) Innovation**

Institutions that are in the middle of broad restructurings and rethinking big parts of their business are some of the most innovative ones we work with. Not surprising, I suppose, since they need to think completely differently. Are they missing patterns and trends in data because they are trying to read it all manually, when they could automate that and speed up the process? Are there insights on companies, industries, or key words that they can learn from these data trends and patterns? That is how they will serve their clients better and outperform the competition.

### **15.6 SOURCES OF FINANCE**

Project finance may come from a variety of sources. The main sources include equity, debt and government grants. Financing from these alternative sources have important implications on project's overall cost, cash flow, ultimate liability and claims to project incomes and assets.

Equity is provided by project sponsors, government, third party private investors, and internally generated cash. Equity providers require a rate of return target, which is higher than the interest rate of debt financing. This is to compensate thehither risks taken by equity investors as they have junior claim to income and assets of the project.

Leaders of debt capital have a senior claim on income and assets of the project. Generally, debt finance makes up the major share of investment needs(usually about 70 to 90 per cent) in PPP projects. The common forms of debt are:

- Commercial loan
- Bridge finance
- Bonds and other debt instruments(for borrowing from the capital market)
- Subordinate loans

Commercial loans are funds lent by commercial banks and other financial institutions and are usually the main source of debt financing. Bridge financing is a short – term financing arrangement (e.g. for the construction period or for an initial period) which is generally used until a long – term financing arrangement can be implemented. Bonds are long – term interest bearing debt instruments purchased either through the capital markets or through private placement (which means direct sale to the purchaser, generally an institutional investors – see below). Subordinate loans are similar to commercial loans but they are secondary or subordinate to commercial loans in their claim on income and assets of the project.

The other sources of project finance include grants from various sources, supplier's credit, etc. Government grants can be made available to make PPP(Public Private Partnership) projects commercially viable, to reduce the financial risks of private investors, and to achieve socially desirable objectives such as to induce economic growth in lagging or disadvantaged areas. Many governments have established formal mechanisms for the award of grants to PPP projects. Where grants are available, depending on government policy they may cover 10 to 40 per cent of the total project investment.

## **15.7 Conclusion**

This chapter concludes project financing stating that it facilitates the development of large infrastructure projects, which are often critical to a country's economic growth. The book presents the many advantages of project financing. It

describes the circumstances in which project financing might be beneficial to a firm's shareholders, and emphasizes that a project financing must be designed to serve a community of interests among several parties to a project. Consequently, no single rationale can completely explain why firms employ project financing clever corporate financial engineers continue to find new applications of project financing. As the financial environment continues to evolve, project financing continue to enjoy a prominent place among the most important financing techniques in the global economy.

### **Questions**

1. What is project finance?
2. What are the key concepts of project finance?
3. What are the 5 areas of financial institutions to improve their Business?
4. What are the sources of finance?

## **CHAPTER– 16**

### **16.1 Introduction**

### **16.2 Meaning**

### **16.3 Reserve Bank of India (RBI)**

- 16.4 Commercial bank in India**
- 16.5 Credit rating agencies in India**
- 16.6 Securities and exchange board in India (SEBI)**
- 16.7 Specialized financial institutions in India**
- 16.8 WHAT FACTORS ARE IMPORTANT IN BUILDING A STABLE FINANCIAL SYSTEM**
- 16.9 Types of Financial Institutions**
- 16.10 Functions**
- 16.11 MOTIVATING INSTITUTIONS FOR ENTREPRENEURS**
- 16.12 Industrial Financial Corporation of India (IFCI)**
- 16.13 Main resources of IFCI**
- 16.14 Functions of Industrial Finance Corporation of India (IFCI)**
- 16.15 Financial Assistance Sanctioned and Disbursed by IFCI**
- 16.16 Industrial Development Bank of India (IDBI)**
- 16.17 Functions of IDBI**
- 16.18 Industrial Credit Investment Corporation of India (ICICI)**
- 16.19 Objectives of ICICI**
- 16.20 Life insurance corporation (LIC)**
- 16.21 Main Features of LIC**
- 16.22 State Financial Corporation's (SFCs)**
- 16.23 Assistance provide by SFCs**
- 16.24 SIPCOT (State Industries Promotion Corporation of Tamilnadu Ltd)**
- 16.25 Objectives of SIPCOT**
- 16.26 Commercial Bank**
- 16.27 Role of Commercial Bank**
- 16.28 Bank Reserves**
- 16.29 Services by Product**
- 16.30 Types of loan**

## **16.31 Conclusion**

# **INSTITUTIONAL FINANCE**

## **16.1 Introduction**

Institutional finance means finance raised from financial institutions other than commercial banks. These financial institutions act as an intermediary or link between savers and investors. They provide finance and financial services in areas which are outside the purview of traditional commercial banking.

## **16.2 Meaning**

The term institutional support refers to the part of economic environment of industry and business. It consists of authorities and institutions whose decisions and active support in form of laws, regulation, financial and non-financial help brings a lot of changes in the functioning of any business.

The institutions could be government owned, statutory, semi autonomous or autonomous. It is the government or government supported institutions authorized to take up certain activities - financing, marketing, project preparation, training to promote industrial activities in the state.

There are three stages of promotion - inception stage, operational stage and expansion or diversification stage. The Government through its plans and policies assisted the business houses in facilitating in the above stages through various specialized institutions set up as per the law. An entrepreneur who needs to set up a business unit of his own or with his friends and relatives is supposed to know the various institutions or organizations working as per the law for the purpose. Dissemination of information in this regard can only help them in achieving the very dream of becoming a successful entrepreneur.

Financial institutions are government-regulated or private entities that offer financial services to their customers. These institutions control the flow of cash from an investor to a company and vice versa within and outside a country. Financial

institutions cater to clients ranging from individuals to big organizations, depending on their size and the services offered. Broadly speaking, financial institutions deal in the sectors pertaining to mortgage, automobile, homeowner, personal business and corporate finance.

The Financial Institutions in India mainly comprises of the Central Bank which is better known as the Reserve Bank of India, the commercial banks, the credit rating agencies, the securities and exchange board of India, insurance companies and the specialized financial institutions in India.

### **16.3 Reserve bank of India (RBI)**

The Reserve Bank of India was established in the year 1935 with a view to organize the financial frame work and facilitate fiscal stability in India. The bank acts as the regulatory authority with regard to the functioning of the various commercial bank and the other financial institutions in India. The bank formulates different rates and policies for the overall improvement of the banking sector. It issue currency notes and offers aids to the central and institutions governments.

### **16.4 Commercial bank in India**

The commercial banks in India are categorized into foreign banks, private banks and the public sector banks. The commercial banks indulge in varied activities such as acceptance of deposits, acting as trustees, offering loans for the different purposes and are even allowed to collect taxes on behalf of the institutions and central government.

### **16.5 Credit rating agencies in India**

The credit rating agencies in India were mainly formed to assess the condition of the financial sector and to find out avenues for more improvement. The credit rating agencies offer various services as:

- ✓ Operation Up gradation

- ✓ Training to Employees
- ✓ Scrutinize New Projects and find out the weak sections in it
- ✓ Rate different sectors

The two most important credit rating agencies in India are:

- ✓ CRISIL
- ✓ ICRA

### **16.6 Securities and exchange board in India (SEBI)**

The securities and exchange board of India, also referred to as SEBI was founded in the year 1992 in order to protect the interests of the investors and to facilitate the functioning of the market intermediaries. They supervise market conditions, register institutions and indulge in risk management.

### **16.7 Specialized financial institutions in India**

The specialized financial institutions in India are government undertakings that were set up to provide assistance to the different sectors and thereby cause overall development of the Indian economy. The significant institutions falling under this category includes:

- Board for Industrial & Financial Reconstruction
- Export-Import Bank Of India
- Small Industries Development Bank of India
- National Housing Bank

### **16.8 WHAT FACTORS ARE IMPORTANT IN BUILDING A STABLE FINANCIAL SYSTEM**

1. First, financial system architecture should be carefully planned. Different stages of financial development require adequate institutional processes to be in place. Here, one can refer to the sequencing laid out by IMF in recent years and to the

European experience with opening and gradually liberalizing the financial sector during the 1980s and 1990s.

2. Second, a solid micro supervision of the financial sector and individual institutions should be in place.

3. Third, close co-operation and exchange of information between the central bank and supervisory authorities is warranted at all times and especially in periods of financial stress. I will refer to this more extensively in a moment.

4. Fourth, there are several, complementary public policies that are typically needed to sustain or build up confidence in financial institutions.

- **Fiscal policy.** If fiscal authorities, as in the euro area, are restricted in their ability to run deficits or accumulate large debts, an important source of financial market stress and financial instability is removed.
- **Monetary policy.** As is now widely accepted, monetary authorities should in the first place try to guarantee price stability, being the best possible contribution it can make to growth in the medium to long-term. Indirectly, this should also be conducive to supporting financial stability, as the economy will have less macro uncertainties to deal with, when allocating resources. However, it goes without saying that the central bank should take an active interest in monitoring financial sector developments, given the importance of the sector, also from a monetary policy (transmission) perspective, and given its importance in the economic system (intermediation between lenders and borrowers).
- In some cases, when financial stability is threatened, monetary policy may be used as a tool to support the financial sector. This support may come not only through interest rate policy, but also and most powerfully through the central bank's role as a lender of last resort, that is, in providing final liquidity when solvent commercial banks suffer liquidity strains.

## **16.9 Financial Institutions: Types**



Financial institutions can be categorized into the following types, based on the services offered by them:

- \* Commercial banks: These institutions offer services such as insurance, mortgages, loans and credit banks.
- \* Credit banks: They are cooperative financial institutions, generally controlled by members who have accounts in the firm. These unions offer direct debits, direct deductions from payroll, cheaper insurance facilities and standing order facilities.
- \* Savings and loan association: These associations offer loans, mortgages, insurance, credit cards and interest to their clients.
- \* Stock brokerage firms: These firms help individuals and corporate invest in stock market. Stock brokerage firms also offer insurance, mortgages, credit cards, securities, loans, check writing and money market services to clients.
- \* Insurance companies: Insurance companies provide a cash cover in lieu of premium to policyholders. Services such as insurance, securities, mortgages, loans, credit cards and check writing are offered by these firms.
- \* Retailers: They offer services such as insurance, securities, mortgages, loans, credit cards and cash management.

### **16.10 Functions**

Financial institutions provide services as intermediaries of financial markets. Broadly speaking, there are three major types of financial institutions:

1. Depository institutions – deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies;
2. Contractual institutions – insurance companies and pension funds
3. Investment institutions – investment banks, underwriters, brokerage firms.

### **16.11 MOTIVATING INSTITUTIONS FOR ENTREPRENEURS:-**

In order to pace-up the small industries development along with the industrial development of the country, Government at Central and State levels has set up a

number of development agencies/institutions. These institutions motivate a person to start his/her own unit or industry.

Financial and non-financial assistance, guidance and counseling on many matters to start a business unit have been providing continuously by various institutions. These institutions provide different types of assistance. It means that one institution will not provide all the types of assistance. One has to contact different institutions for different types of assistance.

The institutions which are motivating potential entrepreneurs to start their own ventures are here classified into two parts, viz.

- (i) Financial institutions
- (ii) Non-financial institutions.

Financial Institutions means the institution, which is providing various types of financial assistance to the entrepreneurs. Whereas non-financial institution means the institution which is providing the assistance other than in terms of financial.

Motivating Institutions can also be classified into three parts viz.

- (i) District level institutions
- (ii) State level institutions
- (iii) All India Institutions.

It may be classified into three categories

- (i) Advisory bodies
- (ii) Government institutions
- (iii) Corporate institutions

The assistance provided by some of the institutions are explained below:-

### **Financial Institutions:**

#### **16.12 Industrial Financial Corporation of India (IFCI):**

The Industrial Finance Corporation of India (I.F.C.I.) was established in 1948 by our Government with the object of providing medium and long-term credit to industrial

concerns in India. IFCI transformed into a corporation from 21 May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

To meet the long-term finance needs of entrepreneurs several commission and committees such as "Industrial Commission (1916-18), the External Capital Committee (1925) and the Indian Central Banking Enquiry Committee (1929-31) had stressed the need for setting up of such

Institutions, but no action was taken by the Government. But the greater need to finance the over-worked units during the Second World War period forced the Government to set up Industrial Finance Corporation of India, which came into existence on the 1st July 1948. The Corporation came into existence with an aim to provide medium and long term credit to large scale industries, organized as public limited companies or cooperative societies in India, engaged or proposing to engage in manufacturing, preservation or pricing of goods, mining, generation and distribution of electric power or any other source of power, shipping and hotel industries in India particularly in circumstance when normal banking accommodation is inappropriate or resource to capital issue method is impracticable.

IFCI is the first term-financial Institution which was set up in July 1948 by the Government of India under the IFCI Act 1948 with objective of providing medium and long-term loans to largest small Industrial concerns in the private sector.' However, joint and public sector also have been made eligible for its assistance. It provide direct rupee and foreign currency loans for new industrial projects and for expansion, diversification, renovation and modernization of existing units, It also underwriter and directly subscribe to industrial security, provided financial guarantees merchant banking services and leave finance.

### **16.13 Main resources of the IFCI are;**

- (a) Loan from RBI,
- (b) Share capital,
- (c) Repayment of loans,

- (d) Retained earning,
- (e) Loan from Government,
- (f) Lines of credit from foreign lending agencies; and
- (g) Commercial borrowings in international capital market.

It has introduced a number of financial promotional schemes on its own. The letter includes eight consultancy fee subsidy schemes, and two entrepreneurship development schemes. It has formed IFCI Financial limited.

The constitution of IFCI was changed in 1993 from a statutory corporation to a company under the Companies Act to encase greater flexibility. In future the IFCI Ltd. would lay emphasis to cater the needs of small & medium enterprises and serve as a mid-corporate specialist. As an end-March 2003, the principal holders of the total paid-up capital of IFCI Ltd. along with share were IDBI (18.96%) Nationalized Banks (19.89%) SBI (9.69%) LIC (5.02%) GIG site subsidiaries (5.97%) and so on.

#### **16.14 Functions of Industrial Finance Corporation of India (IFCI):**

The Corporation performs the following functions:

- (1) Underwriting the shares, bonds or debentures of industrial enterprises; provided such stocks, shares or debentures are disposed of by the Corporation within a period of seven years from the date of acquisition,
- (2) Granting loans or subscribing to the debentures of industrial undertakings repayable within a period not exceeding 25 years,
- (3) Guaranteeing loans traded in the public market by the industrial concerns, repayable within 25 years or raised from scheduled banks or State co-operative banks,
- (4) Subscribing directly to the stock or shares of any industrial concerns,
- (5) Guaranteeing deferred payments in respect of import of capital goods' by industrial concerns who are able to make such arrangements with foreign

manufacturers or in connection with the purchase of capital goods manufacturing in India,

(6) Guaranteeing loans raised from any banks or financial institutions in and country outside India,

(7) Acting as the agent of the Central Government and IDBI in respect of loans sanctioned by them to industrial concerns,

(8) Undertaking Merchant Banking Operations,

(9) Providing technical and administrative assistance to any industrial concern for the promotion, management by expansion of any industry, and

(10) Undertaking research and surveys for evaluating or dealing with marketing or investments and undertaking and carrying out techno-economic studies in connection with the development of industry.

### **16.15 Financial Assistance Sanctioned and Disbursed by IFCI**

| Year      | Sanctions | Disbursements |
|-----------|-----------|---------------|
| 1990-91   | 2429.8    | 1574.3        |
| 1991-92   | 2421.2    | 1604.4        |
| 1992-93   | 2347.9    | 1733.4        |
| 1993-94   | 3745.9    | 2163.1        |
| 1994-95   | 5719.5    | 2838.7        |
| 1995-96   | 10300.3   | 4563.3        |
| 1996-97   | 7212.3    | 5157.1        |
| 1997-98   | 7693.2    | 5650.4        |
| 1998-99   | 4445.2    | 4819.3        |
| 1999-00   | 2080.0    | 3272.1        |
| 2000-01   | 1766.5    | 2156.8        |
| 2001-02   | 777.6     | 1074.4        |
| 2002-03   | 1960.0    | 1779.9        |
| 2004-05   | 00        | 91.3          |
| 2005-06   | 0.0       | 187.0         |
| 2006-07 P | 1050.0    | 550.0         |
| 2007-08 P | 2550.5    | 2280.1        |

**Source: RBI**

### **16.16 Industrial Development Bank of India (IDBI):**

For coordinating the activities of the existing financial institutions, it became necessary to set up a new financial institution. Hence, a decision was taken by the Government of India in pursuance of the above object, to set up a new institution to be called Industrial Development Bank of India.

The Government of India introduced the IDBI Bill in Parliament in February 1964 initiating discussion on the Bill, the then Finance Minister emphasized the need for an institution like Development Bank to arrange medium and long-term loans for industries.

The IDBI was set up as wholly - owned subsidiary of the RBI on July 1, 1964, under an act of Parliament. In February 1976, the IDBI was declined from the RBI and since then, it has become apex institution in the field of industrial finance. The Bank was taken over by the Government of India in 1976.

The main object of setting up this institution have been to bridge the gap between demand and supply of finance by providing direct financial assistance to industrial concerns wherever necessary and to bring into existence an apex body to coordinate activities of various financial institutions providing term finance to industries. Therefore, IDBI has been created not only as a financial agency but also for the purpose of integrating activities of all the financial institutions providing short, medium and long-term benefits for the industry.

#### **16.17 Functions of IDBI:**

The main function of the Industrial Development Bank of India, as its name itself suggest is to finance Industrial enterprises in both private and public sector. Financial assistance is provided either directly or through special financial institutions.

**(a) Direct Assistance:** IDBI assists Industrial unit directly by way project loan, underwriting of and direct subscription to industries securities (Share & Debentures) soft loans, technical development fund loans and equipment finance loan. IDBI provides direct assistance for project costing more than Rs. 3 Crore under the Project finance scheme.

**(b) Indirect Finance:** IDBI Indirect assistance is provided basically to tiny, small and medium enterprises mainly.

(i) By way of refinance of Industrial loan granted by SFCs, SIDCs, and commercial banks, co-operative banks an RRB.

(ii) Rediscounting of bills arising out of safe of Indigenes machinery a deferred payment basis.

(iii) Seed Capital assistance to new enterprise never generally through SFCs & SIDCs.

**(c) Special Assistance:** IDBI Act 1964, provide Development Assistance fund. This fund to be used by the IDBI to assist those Industrial concerns which are not able to secure funds in the normal course either because of heavy investment or low rate of returns both.

**(d) Direct Assistance to Industries:** The IDBI has been empowered to finance industrial concerns directly under the following structural arrangements:

(i) To grant financial accommodation up to a 16 year period for export of capital goods and other commodities,

(ii) To grant loans or to subscribe to the shares and debentures of industrial concerns. Such loans, advances, and debentures can be converted into equity shares at the option of the Bank,

(iii) To underwrite new issues of Industrial concerns and accept, discount or rediscount bonafide commercial bills or promissory notes of industrial concerns,

(iv) To guarantee deferred payment due from industrial concerns for loan raised by them in the market or from scheduled banks etc.

**(e) Assistance to other financial institutions:** IDBI has carried out the following refinancing functions: IDBI can refinance term advances of 3 to 25 years maturity made to industrial concerns by IFCI, SFCs and other financial institutions which may be notified by the Government. It can similarly refinance term loans of 3 to 10 years maturity made by scheduled banks and State Co-operative Banks. It can also refinance export credit of 15 years' maturity where primary lending institutions grant loans to person in India and to persons outside India repayable within a period of 12 years.

**(f) Creation of Development of Assistance funds:** The Bank created a development assistance fund in 1965 with an initial contribution from Central Government.



This fund is intended to provide assistance for industries which for various reasons like, heavy investment involved or low anticipated return on capital, may not be able to obtain funds in the normal course. The prior approval of the Central Government is necessary for any assistance from the Fund.

**(g) Soft loan scheme:** The soft loan scheme came into existence in November 1976 for financing the modernization programme of five selected industries, namely, cotton, textiles, jute, cement, sugar and specified engineering industries. The scheme aims at modernization, replacement and renovation of industry which has become necessary to achieve a more economic level of production in order to enhance their competitiveness in domestic and international markets.

**(h) Technical Development Fund Scheme:** Technical Development Fund Scheme was introduced in March 1979 with the object of promoting fuller capacity utilization, technologies up gradation, and export development. The fund can provide foreign exchange for small value imports with the object of procuring technical know-how, foreign consultancy service, drawings and designs.

**(i) Automatic Refinancing Scheme:** The main features of Automatic refinancing scheme are as follows:

(a) Sanction and disbursement of refinance in respect of loans upto Rs. 5 lakhs from the eligible institutions to small scale industries including those in the tiny sector which are normally covered under the IDBI Credit Guarantee Scheme,

(b) The IDBI will not levy commitment charges on credit institutions in respect of refinances under the ARS

(c) Only one general agreement will be taken from the eligible institution covering draws of refinance under different schemes of the IDBT

**(j) Rediscounting:** IDBI has introduced a scheme for rediscounting of bills against the sale of machinery to enable the indigenous machine manufacturing industry to purchase equipment on deferred payment basis.

The following table Showing Financial Assistance Sanctioned and Disbursed by IDBI

| Year    | Sanctions | Disbursements |
|---------|-----------|---------------|
| 1990-91 | 6278.3    | 4501.1        |
| 1991-92 | 6590.2    | 5768.8        |
| 1992-93 | 9249.4    | 6710.7        |
| 1993-94 | 12086.0   | 8095.9        |
| 1994-95 | 18199.4   | 10671.8       |
| 1995-96 | 16476.4   | 10695.2       |
| 1996-97 | 15634.0   | 11467.7       |
| 1997-98 | 23982.0   | 15170.0       |
| 1998-99 | 23744.7   | 14470.1       |
| 1999-00 | 26966.5   | 17059.4       |
| 2000-01 | 26832.6   | 17476.9       |
| 2001-02 | 15867.9   | 11012.5       |
| 2002-03 | 5898.2    | 6614.9        |
| 2003-04 | 3937.7    | 4986.4        |
| 2004-05 | 10799.0   | \$\$ 6183.3   |

### 16.18 Industrial Credit Investment Corporation of India (ICICI):

ICICI was established on the recommendation of World Bank team in 1954 and it started functioning from 5th June 1955 with an authorized 17 capital of Rs. 25 crores and paid up capital of Rs 22 5 crores.

### 16.19 Objectives of ICICI:

The objectives of the Corporation are as follows:

1. To encourage and promote the participation of foreign capital, both internal and external, in industrial concerns.

2. To ensure rapid expansion of the investment markets and to promote private ownership of industrial investments
3. To assist in the expansion, modernization and creation of private enterprises.

### **Showing Financial Assistance Sanctioned and Disbursed by ICICI**

| Year    | Sanctions | Disbursements |
|---------|-----------|---------------|
| 1990-91 | 3744.0    | 1967.5        |
| 1991-92 | 4094.9    | 2351.3        |
| 1992-93 | 5771.8    | 3315.2        |
| 1993-94 | 8491.4    | 4413.3        |
| 1994-95 | 14527.9   | 6879.3        |
| 1995-96 | 14594.9   | 7120.4        |
| 1996-97 | 14083.8   | 11180.9       |
| 1997-98 | 24717.5   | 15806.9       |
| 1998-99 | 32370.6   | 19225.1       |
| 1999-00 | 43522.8   | 25835.7       |
| 2000-01 | 55815.2   | 31664.6       |
| 2001-02 | 36229.1   | 25831.0       |

### **16.20 Life insurance corporation (LIC)**

Life Insurance Corporation of India (LIC) was established in 1956 to spread the message of life insurance in the country and to mobilize people's savings for nation-building activities.

### **16.21 MAIN FEATURES OF LIC**

The main features of LIC are given below:

**1. Saving Institution:** Life insurance both promotes and mobilizes saving in the country. The income tax concession provides further incentive to higher income persons to save through LIC policies. The total volume of insurance business has also been growing with the spread of insurance-consciousness in the country.

The total new business of LIC during 1995-96 was Rs. 51815 crore sum assured under 10.20 lakh policies.

The LIC business can grow at still faster speed if the following improvements are made:

The organizational and operational efficiency of the LIC should be increased.

(i) New types of insurance covers should be introduced.

(ii) The services of LIC should be extended to smaller places.

(iii) The message of life insurance should be made more popular.

(iv) The general price level should be kept stable so that the insuring public does not get cheated of a large amount of the real value of its long-term saving through inflation.

**2. Term Financing Institution:** LIC also functions as a large term financing institution (or a capital market) in the country. The annual net accrual of investible funds from life insurance business (after making all kinds of payments liabilities to the policy holders) and net income from its vast investment are quite large. During 1994-95, LIC's total income was Rs. 18,102.92crore, consisting of premium income of Rs. 1152,80crore investment income of Rs. 6336.19crore, and miscellaneous income of Rs. 238.33crore.

**3. Investment Institutions:** LIC is a big investor of funds in government securities. Under the law, LIC is required to invest at least 50% of its accruals in the form of premium income in government and other approved securities.

LIC funds are also made available directly to the private sector through investment in shares, debentures, and loans. LIC also plays a significant role in developing the business of underwriting of new issues.

**4. Stabilizer in Share Market:** LIC acts as a downward stabiliser in the share market. The continuous inflow of new funds enables LIC to buy shares when the market is weak.

However, the LIC does not usually sell shares when the market is overshot. This is partly due to the continuous pressure for investing new funds and partly due to the disincentive of the capital gains tax.

## **Defects**

The development banks in India suffers from a number of defects as discussed below:

### **1. Dependence on Institutional Sources of Finance:**

The capital resources of development banks mainly come from institutional sources. They have not been able to raise funds directly from public as is done by the banks, insurance companies, etc. Dependence on the institutional sources has enabled the development banks to get funds at low yield rates. But, the low yield structure has come in the way of the popularity of development banks. They could not make their bonds and debentures popular in the market and raise sufficient funds from the public.

### **2. Defects of Loan Finance:**

The development banks mostly provide assistance in the form of debt capital, particularly in term loans. No doubt, loan financing assures a stable return on funds and do not involve such managerial problems as are faced during equity participation.

But the loan financing has its own drawbacks:

- (a) Loan financing has distorted the capital structure of the borrowing industrial concerns in favour of loan capital. The burden of fixed interest payments is too heavy and is one of the reasons for the industrial sickness in the country,
- (b) The government loses potential corporation tax because for the tax purposes, interest is considered as a cost item while estimating corporate profits,
- (c) The industrial concerns also prefer loans to debentures because default on loans are not made public and can be negotiable with the lending agency,
- (d) Loan financing has limited the development of the corporate bond market.

### **3. Small Industries Ignored:**

An important objective of the development banks in India is to provide financial assistance to new enterprises, small and medium industrial units on priority basis. But in reality, the major part of the assistance has been granted to the large and established industrial concerns. New and small entrepreneurs are generally ignored by these banks.

### **4. Cheap Finance to Big Industries:**

The big industrial houses not only receive large and growing, but also organized, assured and cheap amounts of finance from development banks. In fact, the big industry sector has become over-dependent on the development banks for meeting their financial needs. Organized nature of financial resources of the development banks enables them to grant cheap credit.

### **5. More Loans to Developed Areas:**

The development banks are expected to reduce regional disparities by extending greater financial assistance to the backward areas. But, experience has shown that these banks have contributed more to the industrial concerns in the developed regions. About half of the total assistance has been sanctioned for the four industrially advanced states of Maharashtra, Gujarat, Tamil Nadu and West Bengal.

### **6. Problem of Overdues:**

The development banks, particularly, the State Finance Corporations are facing serious problem of over dues. The over dues restrict the recycling of funds of the financial institutions and limit their capacity to lend. The development banks also suffer from the defect of procedural delays in sanctioning and disbursing loans.

## **16.22 State Financial Corporation's (SFCs):**

The State Financial Corporation (SFCs) are state level financial institutions playing an important role in the development of small & medium enterprises in their respective state in tandem with national priorities. There are 18 SFCs at present. Seventeen (17) of them have been set up under State Financial Corporation Act 1951, by the respective state govt, as region of institution. The Tamil Nadu Industries Investment Corporation Ltd. set up in 1949 under companies Act as Madras Industrial Investment Corporation also functions as SFC. They play an effective role in the development of small and medium enterprises and bringing about regionally balanced economic growth.

### **16.23 Assistance Provide by SFCs:**

SFCs aim at wider dispersion of small scale industries within each state they meet term credit needs of such units. SFCs provide assistance to small scale industries by way of soft loans, direct subscription to equity share /debenture guarantees, discounting of bills of exchange and seed capital /special capital. Their main objectives are to finance and promote these industries in the state for achieving the balanced growth. The activities of SFCs were under the overall control and supervision of the IDBI and RBI till about 1990 after which the SIDBI and RBI have been performing the overseeing function.

SFCs operate a number of schemes of refinance and equity type assistance on behalf of IDBI/SIDBI. Besides, they also have special scheme for artisans and special target groups such as SC/ ST women, ex-servicemen, physically handicapped etc. Over the year, they have diversified their activities and increased the scope and coverage of their assistance. The annual growth rates of their sanctions and disbursements have been quite high (13 to 45 percent) most of the year. Under the single window scheme of SIDBI, SFCs have also extending the working capital along with term loan to mitigate the difficulties faced by SSIs in obtaining the working capital limits on time.

### **16.24 SIPCOT (State Industries Promotion Corporation of Tamilnadu Ltd)**

SIPCOT was established in 1971 and has been acting as catalyst in the development of Medium and Large Scale Industries in Tamil Nadu. Working in line with the State Government's Progressive Industrial policies, SIPCOT helps faster industrial development in backward and underdeveloped areas. SIPCOT as totally committed to assist the entrepreneurs provides institutional finance with refinance assistance from Industrial Development Bank of India and Small Industries Development Bank of India for meeting fixed capital investment in Industries. It also provides financial services like, Lease Finance Scheme for Capital Goods, Term Loan assistance for Industrial projects. SIPCOT is also involved in formation and managing of Industrial complexes/Parks and allotment of developed plots for location of industries

### **16.25 Objectives of SIPCOT**

SIPCOT transformed numerous backward and under developed areas to become important industrial hubs of the State.

The agency has developed over 6400 acres of industrial land in different parts of the state to cater to the growing demands of investors, with another 2150 acres under development. Plans have been drawn up for developing 20,000 acres in new sites. The agency also draws up plans and implements schemes to improve the infrastructure requirements of industrial areas to ensure higher levels of competitiveness.

Apart from providing an entrepreneur with the complete infrastructure for growth and development, SIPCOT also extends financial assistance under Industrial Development Bank of India (IDBI) and Small Industries Development Bank of India (SIDBI) line of credit scheme. SIPCOT's wide-ranging assistance to entrepreneurs includes features like :

- \* Setting-up of industrial complexes to function as growth centres.
- \* Providing financial assistance to medium and large scale sectors.
- \* Channelizing incentives for industries from State Government.



\* Monitoring of Letter of Intent and providing Escort Services to medium and large scale industries.

### **16.26 COMMERCIAL BANK**

A commercial bank is a type of financial institution that provides services such as accepting deposits, making business loans, and offering basic investment products. Commercial bank can also refer to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/middle-sized business - as opposed to individual members of the public/small business - retail banking, or merchant banks.

### **16.27 ROLE OF COMMERCIAL BANK**

The general role of commercial banks is to provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy.

In this respect, "credit creation" is the most significant function of commercial banks. While sanctioning a loan to a customer, they do not provide cash to the borrower. Instead, they open a deposit account from which the borrower can withdraw. In other words, while sanctioning a loan, they automatically create deposits, known as a "credit creation from commercial banks".

#### **Primary functions**

- Commercial banks accept various types of deposits from public especially from its clients, including saving account deposits, recurring account deposits, and fixed deposits. These deposits are returned whenever the customer demands it or after a certain time period
- Commercial banks provide loans and advances of various forms, including an overdraft facility, cash credit, bill discounting, money at call etc. They also give demand and term loans to all types of clients against proper security.

#### **Regulations**

In most countries central banks are responsible for the oversight of the commercial banking system of their respective countries. They will impose a number of conditions on the banks that they regulate such as keeping bank reserves and to maintain minimum capital requirements.

### **16.28 Bank reserves**

Bank reserves or "central bank reserves" are banks' holdings of deposits in accounts with their central bank (for instance the European Central Bank or the Federal Reserve, in the latter case including federal funds), plus currency that is physically held in the bank's vault ("vault cash"). Some central banks set minimum reserve requirements, which require banks to hold deposits at the central bank equivalent to at least a specified percentage of their liabilities such as customer deposits. Even when there are no reserve requirements, banks often opt to hold some reserves — called desired reserves— against unexpected events such as unusually large net withdrawals by customers or bank runs.

### **16.29 Services by Product**

Commercial banks generally provide a number of services to its clients, these can be split into core banking services such as deposits and loans and other services which are related to payment systems and other financial services.

#### **Core products and services**

- Accepting money on various types of Deposit accounts
- Lending money in the form of Cash: by overdraft, installment loan etc.
- Lending money in Documentary form: Letters of Credit, Guarantees, Performance bonds, securities, underwriting commitments, issuing Bank drafts and Bank cheques, and other forms of off-balance sheet exposure.
- Inter- Financial Institutions relationship
- Cash management
- Treasury management

- Private Equity financing
- Processing payments via telegraphic transfer, EFTPOS, internet banking, or other payment methods.

### **Other functions**

Along with core products and services, commercial banks perform several secondary functions. The secondary functions of commercial banks can be divided into agency functions and utility functions.

#### **Agency functions include:**

- To collect and clear cheques, dividends and interest warrant.
- To make payments of rent, insurance premium, etc.
- To deal in foreign exchange transactions.
- To purchase and sell securities.
- To act as trustee, attorney, correspondent and executor.
- To accept tax proceeds and tax returns.

#### **Utility functions include:**

- To provide safety locker facility to customers.
- To provide money transfer facility.
- To issue traveler's cheque.
- To act as referees.
- To accept various bills for payment: phone bills, gas bills, water bills, etc.
- To provide merchant banking facility.
- To provide various cards: credit cards, debit cards, smart cards, etc.

### **16.30 TYPES OF LOAN**

All the loans in the Commercial banking, irrespective of the particular type of bank product, are subject to be "secured" or "unsecured".

## **Secured loans**

A secured loan is a loan in which the borrower pledges some asset (e.g., a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain some or the entire amount originally lent to the borrower, for example, foreclosed a portion of the bundle of rights to specified property. If the sale of the collateral does not raise enough money to pay off the debt, the creditor can often obtain a deficiency judgment against the borrower for the remaining amount. The opposite of secured debt/loan is unsecured debt, which is not connected to any specific piece of property and instead the creditor may only satisfy the debt against the borrower rather than the borrower's collateral and the borrower.

## **Unsecured loan**

Unsecured loans are monetary loans that are not secured against the borrower's assets (no collateral is involved). There are small business unsecured loans such as credit cards and credit lines to large corporate credit line. These may be available from financial institutions under many different guises or marketing packages such as:

- Bank overdrafts
- Corporate bonds
- Credit card debt
- Credit facilities or lines of credit

## **16.31 CONCLUSION**

This chapter studies role, objectives, functions and progress of various financial institutions, organizations and institutions in the development of entrepreneurship and Micro, Small and Medium Enterprises (MSMEs).

### **Questions**

1. What is institutional finance?
2. Explain importance in building a stable financial system.
3. What is SEBI?
4. State the types of financial institution.
5. Explain the functions of financial institution.
6. What are the motivational institutional for entrepreneurs?
7. Explain IFCI
8. Explain the functions of IFCI
9. Explain the function of ICICI
- 10.State the objectives of ICICI
- 11.What is LIC? Explain the main features of LIC
- 12.Explain the defects of LIC
- 13.What is SFC? What are the assistance provided by SFC?
- 14.What is SIPCOT? Explain the objectives of SIPCOT.
- 15.What is commercial Bank? Explain the types of loan provided by commercial banks.

## **CHAPTER – 17**

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## **INSTITUTIONAL AIDS FOR ENTREPRENEURSHIP DEVELOPMENT**

### **17.1 Introduction**

Rural development is more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises: development agencies see rural entrepreneurship as an enormous employment potential; politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings; and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development, without it other factors of development will be wasted or frittered away. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprises. What is needed in addition is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on policies promoting rural entrepreneurship.

### **17.2 District Industries Centre (DICS)**

The 'District Industries Centre' (DICs) programme was started by the central government in 1978 with the objective of providing a focal point for promoting small, tiny, cottage and village industries in a particular area and to make available to them all necessary services and facilities at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government. To facilitate the process of small enterprise development, DICs have been entrusted with most of the administrative and financial powers. For purpose of allotment of land, work sheds, raw materials etc., DICs functions under the 'Directorate of Industries'. Each DIC is headed by a General Manager who is assisted by four functional managers and three project managers to look after the following activities :

### **17.3 Activities of District Industries Centre (DIC):**

1. Economic Investigation
2. Plant and Machinery  
Research, education and training
1. Raw materials
2. Credit facilities
3. Marketing assistance

### **17.4 Objectives of District Industries Centre (DIC):**

The important objectives of DICs are as follow :

- Accelerate the overall efforts for industrialization of the district.
- Rural industrialization and development of rural industries and handicrafts.
- Attainment of economic equality in various regions of the district.
- Providing the benefit of the government schemes to the new entrepreneurs.
- Centralization of procedures required to start a new industrial unit and minimization- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.



The DIC is an institution set up at the District Level, which provides wide range of services and support to the entrepreneurs/educated unemployed youth for setting up of small, tiny and cottage industries.

DIC extends their wide services in establishing new industries to obtain various clearances/permission through a system called Industrial Guidance Bureau (IGB) where the entrepreneur/industrialists have been taken care in all respects in the course of obtaining permission/clearance/license for setting up of new industries

Thus it may be said that DIC extends promotional, technical, physical, financial, marketing and all other type of services, required for growth and development of SSI.

### **17.5 The important functions of DIC are discussed as follow:**

#### **1. Identification of entrepreneurs:**

DICs develop new entrepreneurs by conducting entrepreneurial motivation programmes throughout the district particularly under SEEUY scheme. DICs also take association of SIS's and TCOs for conducting EDPs.

#### **2. Provisional registration:**

Entrepreneurs can get provisional registration with DICs which enable them to take all necessary steps to bring the unit into existence.

The entrepreneur can get assistance from term lending institutions only after getting provisional registration. The provisional registration is awarded for two years initially and can be renewed every year but only for two times.

#### **3. Permanent registration:**

When the entrepreneur completes all formalities required to commence the production like selection of site, power connection, installing machinery etc he can apply to DIC for permanent registration.

It is only after getting the permanent registration that the entrepreneur can apply for supply of raw materials on concessional rates. Permanent registration is essential to avail all types of benefits extended by the government from time to time.

#### **4. Purchases of fixed assets:**

The DICs recommend loan applications of the prospective entrepreneur to various concerned financial and developmental institutions e.g. NSIC, SISI etc. for the purchase of fixed assets. It also recommend to the commercial banks for meeting the working capital requirement of SSI to run day to day operations.

#### **5. Clearances from various departments:**

DIC takes the initiative to get clearances from various departments which is essential to start a unit. It even takes follow up measures to get speedy power connection.

#### **6. Assistance to Village Artisans and Handicrafts:**

In spite of inherent talent and ability village artisans are not better up because they lack financial strength to strive in the competitive market. DIC in support with different lead banks and nationalized banks extends financial support to those artisans.

#### **7. Incentives and subsidies:**

DIC helps SSI units and rural artisans to subsidies granted by government under various schemes. This boost up the moral as well as the financial capacity of the units to take further developmental activities.

The different types of subsidies are power subsidy, interest subsidy for engineers and subsidy under IRDP etc. from various institutions.

#### **8. Interest free sales tax loan:**

SIDCO provides interest free sales tax loan up to a maximum limit of 8% of the total fixed assets for SSI units set up in rural areas. But the sanction order for the same is to be issued by DIC.

The DIC recommends the case of SSI units to National Small Industries Corporation Limited for registration for Government purchase programme.

#### **9. Assistance of import and export:**

Government is providing various types of incentives for import and export of specific goods and services. These benefits can avail by any importer or exporter provided the same is routed through the concerned DIC.

Export and import license is also issued to the importer or exporter only on the basis of recommendation of DIC.

#### **10. Fairs and exhibitions:**

The DICs inspires and facilities the SSI units to participate in various fairs and exhibitions which are organized by the Government of India and other organizations to give publicity to industrial products.

DICs provide free space to SSIs for the display of their products and attitudes financial assistance for the purpose.

#### **11. Training programmes:**

DIC organizes training programs to rural entrepreneurs and also assists other institutions or organization imparting training to train the small entrepreneurs.

#### **12. Self-employment for unemployed educated youth:**

The DICs have launched a scheme to assist the educated unemployed youth by providing them facilities for self-employment. The youth should be in the age group of 18 to 35 years with minimum qualification of Metric or Middle with I.T.I. in engineering or Technical Trade. Technocrats and women are given preference.

#### **17.6 SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SIDCO)**

Small Industries Development Corporations (SIDCO) are state-owned companies or agencies in the states of India which were established at various times under the policy of Government of India for the promotion of small scale industries

In Tamilnadu, India, Small Industries Development Corporation (SIDCO) was set up in 1971. The prime function of SIDCO was to identify potential growth centres in various parts of Tamilnadu. There is a network of 76 industrial estates in the State which are maintained by SIDCO. 32 of these were formed by the government initially and subsequently handed over to SIDCO. The remaining 44

estates were set up by SIDCO itself. Source (SIDCO – TAMILNADU SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED) It has set up these estates in rural and most backward areas to ensure balanced industrial development.

A few of the SIDCOs are:

- Kerala Small Industries Development Corporation Limited
- Small Industries Development Corporation of Jammu and Kashmir.
- Tamil Nadu Small Industries Development Corporation Limited (TANSIDCO).

### **17.7 Need for Small Industries Development Corporation (SIDCO)**

In many state governments, for the promotion of small scale industries, a separate corporation has been set up which is known as Small Industries Development Corporation. They undertake all kinds of activities for the promotion of small scale industries. Right from the stage of installation, to the stage of commencing production, these Corporations help small scale industries (SSI) in many ways.

In short, they provide infrastructure facilities to small scale industries. Due to the assistance provided by SIDCO, many backward areas in most of the states have been developed. So, SIDCO has also been responsible in spreading the industrial activity throughout several states.

### **17.8 Objectives of SIDCO**

The following are the main objectives of SIDCO

1. The main objective of SIDCO is to stimulate the growth of industries in the small scale sector
2. To provide infrastructure facilities like roads, drainage, electricity, water supply, etc. is one of the primary objectives of SIDCO.
3. To promote industrial estates which will provide industrial sheds of different sizes with all basic infrastructure facilities.
4. To provide technical assistance through training facilities to the entrepreneurs.
5. To promote skilled labor through the setting up of industrial training institutes.

## **17.9 Functions of SIDCO**

### **1. SIDCO supplies scarce raw materials:**

Some of the scarce raw materials are procured by the corporation either from the domestic market or from abroad and are provided to the needy small scale industries. For this purpose, SIDCO has a number of raw material depots and these depots are procuring various scarce raw materials, as per the requirements of small scale industries in the state.

### **2. SIDCO provides marketing assistance:**

In order to provide an efficient marketing support to small scale industries, the corporation has taken up various schemes. In fact, the corporation participates in the tenders floated by the state government departments and also with the DGS & D (Director General of Supplies and Disposal). SIDCO makes advance payments for obtaining orders and distribute them among the various small scale units. SIDCO also arranges for buyer — seller meets frequently.

### **3. SIDCO assists in Bills discounting:**

When small scale units supply goods to government departments, there is a delay in receiving payments. In such a situation, the bills drawn on government departments will be discounted by SIDCO and upto 80% of the bill value is given to the supplier. This helps the SSI units in solving their working capital crisis.

### **4. SIDCO provides Export marketing assistance:**

To promote export marketing among the small scale industries, SIDCO has developed websites because of which it is able to display the products of the small scale industries in foreign markets and obtain export orders. Once an export order is obtained, the Common export manager of SIDCO will make arrangements for extending various services for export of the product. SIDCO also helps in the small scale units taking part in the international trade fair at New Delhi, PragatiMaidan so that the products of small scale industries of Tamilnadu are displayed.

### **5. SIDCO set up Captive power plants:**

In order to provide uninterrupted and good quality power supply, SIDCO has taken up a plan to set up captive power plants in major industrial estates. It is now planning to set up these plants in 10 industrial estates.

### **6. SIDCO promotes skill development centres:**

In an effort to supply skilled laborers to various small scale industries, skill development centres are being set up in various industrial estates which will be training workers in varied industrial activities and they will be trained in modern skill.

### **7. SIDCO promotes women entrepreneurs:**

In addition to the above, in order to promote women entrepreneurs, a separate industrial estate for women has been set up at Tirumullaivoyal, near Chennai, where women entrepreneurs are trained in various fields of small scale industries.

In addition to SIDCO, there are various corporations that assist in the promotion of small scale industries such as, Small Industries Promotion Corporation of Tamilnadu (SIPCOT), Tamilnadu Small Industries Corporation (TANSI), Industrial and Technical Consultancy Organisation of Tamilnadu (ITCOT) and Tamilnadu Industries Investment Corporation (TIIC).

## **17.10 NATIONAL SMALL INDUSTRIES CORPORATION LIMITED (NSIC)**

The NSIC was set up in 1955 with the objective of supplying machinery and equipment to small enterprises on a hire-purchase basis and assisting them in procuring Government orders for various items of stores. NSIC provides a wide range of promotional services to small scale units

The Corporation's Head Office is at Delhi and it has four regional offices at Delhi, Bombay, Madras and Calcutta, and eleven branch offices. It has one central liaison office at Delhi and depots and sub-centres.

The main functions of NSIC are:

- (1) To develop small scale units as ancillary units to large-scale industries:
- (2) To provide SSIs with machines on hire-purchase basis;
- (3) To assist small enterprises to participate in the stores purchase programme of the  
Central Government:
- (4) To assist small industries with marketing facilities:
- (5) To distribute basic raw materials through their depots:
- (6) To import and distribute components and parts to actual small scale users in  
specific industries: and
- (7) To construct Industrial estates and establish and run prototype production-cum-  
training centres.
- (8) To develop small scale industries in other developing countries on turn key basis

The NSIC has taken up the challenging task of promoting and developing small scale industries almost from scratch and has adopted an 'integrated approach' to achieve the socio-economic objectives.

NSIC, in consultation with Rating Agencies and Indian Banks Association, has formulated Performance & Credit Rating Scheme for Small Industries.

The Scheme is aimed to create awareness amongst small enterprises about the strengths and weakness of their existing operations and to provide them an opportunity to enhance their organizational strengths and credit worthiness.

NSIC acts as a facilitator to promote marketing efforts and enhance the competency of the small enterprises for capturing the new market opportunities by way of organizing participating in various domestic & international exhibitions/trade fairs, buyers-seller meets, intensive campaigns seminars and consortia formation. NSIC helps small enterprises to participate in International/national exhibitions/trade fairs at the subsidized rates to exhibit and market their products, participation in these events provides small enterprises an exposure to the national/international markets.

Buyer Seller Meets are being organized to bring bulk buyers/government departments and micro & small enterprises together at one platform. This enables micro & small enterprises to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of micro & small enterprises for their purchases. Intensive campaigns and seminars are organized all over the country to disseminate/propagate about the various schemes for the benefit of the small enterprises and to enrich the knowledge of small enterprises regarding latest developments, quality standards etc.

### **17.11 INDUSTRIAL RECONSTRUCTION CORPORATION OF INDIA (IRCI):**

The Industrial Reconstruction Corporation of India was established as a public limited company in April, 1971 under the control of Reserve Bank of India and the Central Government.

The basic objective of this corporation is to assist rehabilitation of sick industrial units or rehabilitation of units likely to face closure, but showing promise of viability.

The down fall of the units may be due to frequent strikes, mismanagement, shortage of raw materials, general recession etc. Their closure will result in unemployment and dislocation of productive activities.

So, in order to protect them, the IRCI has been set up. This corporation aims at providing financial, technical or managerial assistance so that they can be put up again as viable units.

#### **17.12 Functions:**

While accomplishing its main objective, the corporation performs the following functions.

1. Restructuring of the management.
2. Providing technical and managerial guidance either through its own staff or by procuring the suitable personnel from the market.



3. Helping in getting assistance from other banks and financial institutions and Government agencies.
4. Restructuring the financial base of the assisted companies.
5. Finding out viable solutions to the labour problems.
6. Advising the management with regard to product mix and other allied matters.

Besides the corporation also makes a close follow up of the course of reconstruction.

The corporation has an authorized capital of Rs. 25 crores out of which Rs. 10 crores have been issued to and subscribed by IDBI, IFCLICICI, Life Insurance Corporation of India, State Bank of India and the 14 nationalized banks. The Corporation has received Rs. 10 crores from Govt, of India and has raised Rs. 11 crores by issuing bonds to the public.

It is managed by the board of directors whose members shall not be less than 9 and more than 15. Three directors are appointed by IDBI. It has also constituted an executive committee to consider the grant of restructuring loans up to the extent of Rs 5 lakhs in any single case. The repayments period varies from 4 to 12 years.

### **17.13 Working of the Corporation an Evaluation:**

The IRCI started its operations at a time when the industrial and political climate in the State of West Bengal was too unhappy and problems like management indifference, labour unrest and unemployment have grown in gigantic proportions. Many units have been lying closed and several others were on the verge of closure. In the beginning, the progress was very slow.

The corporation actually, gave assistance only to 72 applicants out of 418 which applied for. However, after 1976-77, the number of units assisted by the corporation is increasing year after year. The year 1981-82 witnessed a phenomenal rise in the provision of assistance by the corporation.

The total assistance sanctioned during that year alone was the order of Rs. 46.88 crores. During the year 1989-90, it sanctioned and disbursed total assistance of Rs. 146.6 crores and 141.1 crores in the last year.

Upto 31st March sanctioned and disbursement stood at Rs. 1029.8 crores 1990 the cumulative and Rs. 765.2 crores respectively. The cumulative term loan assistance made to various individual units situated in notified backward areas up to 31st March 1990 was amounted to Rs. 206 crores to 229 crores.

The corporation has been rendering yeoman service in reviving and revitalizing the ailing and closed units. Besides providing financial assistance, it has helped sick and closed units in a variety of ways, such as arranging for the timely supply of raw- materials, helping to improve the quality of the products, marketing the products, restructuring the management etc. Thus, it is really playing a very significant role in the revival of the industrial economy of the country.

By a notification issued on March, 1985, the government converted the IRCI (which was a company registered under the companies Act) into a statutory corporation to be called the Industrial Reconstruction Bank of India (IRBI) with a view to overcoming the inherent difficulties which had been faced by IRCI in its efforts to rehabilitate sick industrial units. The authorised capital of IRBI is Rs. 200 crore; with a paid up capital of Rs. 50 crores.

#### **17.14 NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED (NIDC)**

The MIDC was established on 20th October 1954 by the Central Government which has been regarded mainly as the instrument to achieve a balanced development of Industries in the private as well as the public sector.

The NIDC plans and formulates projects for setting up new Industries or for developing new lines of production. It undertakes establishment of such undertakings which in the opinion of the central government would contribute to the industrial development of the country.

The main objective of the corporation is promotion of industries rather than granting of finance. It builds up industrial schemes of its own or collaborates with the private industry. It can also render assistance for the modernisation of industries.

The corporation was set up with the authorized capital of Rs. 1 crore out of which Rs. 10 lakhs have been issued and paid up by the government which was increased to 50 lakhs by the end of March 1963. It can also borrow from the government. It is also empowered to issue shares and debentures to enlarge its financial base.

The NIDC has been started for providing assistance to cotton, jute, and sugar industries for modernization. It has established a consultancy in private and public sector. In the year 1970 it rendered consultancy services worth Rs. 69 lakhs.

The services of the MIDC are being availed of by Indian and foreign entrepreneurs as well as by United Nations organization. The management of the NIDC is entrusted to a board of directors consisting of 8 members including the chairman and a managing director. All the appointments are made by the central government.

Resources of the National Industrial Development Corporation Limited

- Multi talented work force of battle hardened professionals
- Technologically advanced computer software and hardware instruments
- Collaborations with both national and international companies, development bodies, research cells, universities, national laboratories, and Indian Institutes of Technology

Wide spectrum of services offered by the National Industrial Development Corporation Limited

- Project engineering
- Industrial management and planning
- Energy management
- Project management and construction management
- Procurement, expedition and inspection
- Quality and technical audit
- Industrial and social infrastructure

- Human resources development and management
  - Environmental engineering
  - Development of application software and information technology
- See more at: <http://business.mapsofindia.com/sectors/public/national-industrial-development-corporation-limited.html#sthash.5W74CLx7.dpuf>

### **17.15 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)**

Small Industries Development Bank of India is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSME) in India. Set up on April 2, 1990 through an act of parliament, it was incorporated initially as a wholly owned subsidiary of Industrial Development Bank of India. Currently the ownership is held by 34 Government of India owned / controlled institutions. Beginning as a refinancing agency to banks and state level financial institutions for their credit to small industries.

It has expanded its activities, including direct credit to the SME through 100 branches in all major industrial clusters in India. Besides, it has been playing the development role in several ways such as support to micro-finance institutions for capacity building and on lending. Recently it has opened seven branches christened as Micro Finance branches, aimed especially at dispensing loans up to 5 lakh.

It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

SIDBI has also floated several other entities for related activities. Credit Guarantee Fund Trust for Micro and Small Enterprises provides guarantees to banks for collateral-free loans extended to SME. SIDBI Venture Capital Ltd. is a venture capital company focused at SME. SME Rating Agency of India Ltd. (SMERA ) provides composite ratings to SME. Another entity founded by SIDBI is ISARC -

India SME Asset Reconstruction Company in 2009, as specialized entities for NPA resolution for SME.

### **17.16 Origin of SIDBI**

In order to promote small scale industries in the country, a special Act was passed in Parliament in April 1990 for starting of Small Industries Development Bank of India. SIDBI is a wholly owned subsidiary of IDBI. It is providing assistance to all those institutions which are promoting small scale industries.

### **17.17 Capital of SIDBI**

SIDBI has an authorized capital of Rs. 1000 crores which can be increased to Rs. 1000 crores. The RBI has also allocated INR 10,000 Crores to SIDBI for various venture capital activities and company startups in 2015. The entire operations of IDBI connected with small scale industries are now handed over to SIDBI.

### **17.18 Objectives of SIDBI**

1. To promote marketing of products of small scale sector.
2. To upgrade technology and also undertaking modernization of small scale units.
3. To provide more financial assistance to small scale ancillary and tiny sector.
4. To encourage employment oriented industries.
5. To coordinate all the other institutions involved in the promotion of small scale industries.

### **17.19 SIDBI Associates**

- CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES
- INDIA SME TECHNOLOGY SERVICES LTD.
- SME RATING AGENCY OF INDIA LTD. (SMERA)
- INDIA SME ASSET RECONSTRUCTION COMPANY LTD
- SIDBI VENTURE CAPITAL LIMITED (SVCL)

- SIDBI TRUSTEE COMPANY LIMITED (STCL)

### 17.20 SIDBI Subsidiaries

SIDBI provides direct, indirect and micro finance facilities.

- **Direct Finance:** In the form of Term Loan Assistance, Working Capital Assistance, Support against Receivables, Foreign Currency Loan, Scheme of Energy Saving for MSME sector, equity support etc.
- **Indirect Finance:** The Indirect assistance in the form of Refinance is provided to Primary Lending Institutions (PLIs), comprising banks, State Level Financial Institutions, etc. having a wide network of branches all over the country. The main objective of Refinance Scheme is to increase the resource position of PLIs which would ultimately facilitate the flow of credit to MSME sector.
- **Micro Finance:** SIDBI provides micro finance i.e. credit to small entrepreneurs and businessmen for establish their business.

### 17.21 Functions of SIDBI

1. SIDBI refinances loans extended by the primary lending institutions to small scale industrial units, and also provides resources support to them.
2. SIDBI discounts and rediscounts bills arising from sale of machinery to or manufactured by industrial units in the small scale sector.
3. To expand the channels for marketing the products of Small Scale Industries (SSI) sector in domestic and international markets.
4. It provides services like leasing, factoring etc. to industrial concerns in the small scale sector.
5. To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

6. To initiate steps for technological up-gradation and modernisation of existing units.
7. SIDBI facilitates timely flow of credit for both term loans and working capital to SSI in collaboration with commercial banks.
8. SIDBI Co-Promotes state level venture funds in association with respective state government.
9. It grants direct assistance and refinance loans extended by primary lending institutions for financing exports of products manufactured by small scale units.

### **17.22 SMALL INDUSTRIES SERVICE INSTITUTES (SISIS)**

Established in 1956 this institute—one in each State has been rendering very useful service to small scale industries. The assistance rendered by the institute and its extension centres in Tamilnadu may be listed as follows :

- 1. Technical Consultancy and Advisory Service:** This relates to selector of profitable small enterprises, choice of appropriate machinery and equipment, appraisal of the technique of" manufacture, processing of raw materials, adoption of recognised standards of testing, quality performance of the small industry products and encouraging small units to participate in Governments stores Purchase Programme. The Institute explores the possibility of setting up small scale units to supply parts/components to large scale industries.
- 2. Common Facility Service:** This includes supply of designs and drawings and provision of workshop facilities for the manufacture of dies, tools, jigs and fixtures and components.
- 3. Training Facilities:** Training is provided to workers in basic trades in the workshops attached to this Institute and its extension centres, to increase their productivity and this helps to encourage development of small scale industries in rural areas.

Training in various aspects of industrial and business management is also provided for the benefit of small industrialists.

A training course in small industries entrepreneurship and management to young engineers with emphasis on the practical aspects of small industries management is conducted. This has been instrumental in creating a new class of qualified entrepreneurs.

**4. Testing Facilities:** Basic testing facilities (both physical and chemical) are provided in the laboratories and workshops attached to this institute at concessional rates.

**5. Marketing Assistance:** Economic information on the nature and extent of the market for specific products is collected and furnished to small industrialists at their request.

The institute offers export promotion service by counseling on export procedures and trends in foreign markets.

Market survey for specific products of small enterprises is also undertaken on a regional basis to enable a small industrialist to increase the sales of his products in the region.

The special information bureau, called the Tamilnadu Sub Contract Exchange, is a Central Information Centre where machine capacities of small scale industries are registered and enquiries from large industries for the manufacture of different components are passed on to registered small scale units having spare capacity, so as to enable them to feed the requirements of large scale units. The institute conducts economic surveys of particular areas to ascertain their industrial potential.

### **17.23 MAIN FUNCTIONS OF SMALL INDUSTRIES SERVICE INSTITUTE (SISI'S)**

1. To assist existing and prospective entrepreneurs through technical and managerial counseling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;



2. Conducting EDPs all over the country;
3. To advise the Central and State governments on policy matters relating to small industry development;
4. To assist in testing of raw materials and products of SSIs, their inspection and quality control;
5. To provide market information to the SISI's;
6. To recommend SSI's for financial assistance from financial institutions;
7. To enlist entrepreneurs for participation in Government stores purchase programme;
8. Conduct economic and technical surveys and prepare techno-economic feasible reports for selected areas and industries.
9. Identify the potential for ancillary development through sub-contract exchanges;
10. Organize seminars, Workshops and Industries Clinics for the benefit of entrepreneurs.

The Small Industries Service Institutes have been generally organizing the following types of EDPs on specialized courses for different target groups like energy conservation, pollution control, Technology up-gradation, Quality improvement, Material handling, Management technique etc. as mentioned earlier.

General EDP for educated unemployed youth, ex-service personnel etc. for a duration of four weeks. In these programmes, classroom lectures and discussions are held on issues such as facilities and assistance available from State and Central government agencies, banks, financial institutions and National Small Industries Corporation.

Apart from this, exposure is given information regarding market survey, product identification and selection, technologies involved, management of small enterprises, particularly in matters relating to financial management, marketing, packaging and exports.

The participants also interact with successful small scale entrepreneurs as a part of their experience sharing Information of quality; possibilities of diversification and expansion are also given.

The entrepreneurs are helped to prepare Project Reports based on their own observations and studies for obtaining financial assistance as may be required. Such courses have benefitted many entrepreneurs to set up units of their own choice.

**SISI and Their Role in the Development of SME's:**

#### **17.24 Technical Advisory Service-**

- To assist small units in the manufacture of quality & standardised product.
- To prepare designs & drawings for special equipment such as dies, jigs, fixtures etc.
- To provide workshops & laboratory facilities to small-scale units & to demonstrate the use of modern technical process on different machines & equipments.
- To guide small units on the selection & use of raw materials & substitutes.

#### **2. Management Consultancy Services-**

- To conduct complete implant studies of individual small-scale units.
- To guide small units in proper methods of industrial management, including finance, accounts, production management etc.
- To provide special tech-managerial advise on cost reduction & economy in the use of raw materials, quality improvement etc.
- To provide ad-hoc managerial advice on special problems to small scale units.

#### **3. Economic Advisory Services-**

- To guide small units on the sources of availability of finance from different agencies.
- To conduct economic surveys of different agencies & suggest programmes for their future developments.

- To conduct industrial surveys of backward areas & suggest scope for development of small industries based on locally available raw material.
- To provide relevant economic & commercial information on different industries.

#### **4. Managerial Services-**

- To conduct export promotion training courses for small entrepreneurs.
- To conduct technical training courses for supervisors & artisans in various technical subjects.
- To conduct ad-hoc training courses in other areas of interests to small units.
- To conduct small industrial management training courses & other courses in specialized subjects, for the benefit of small-scale units.

### **17.25 STATE INDUSTRIES PROMOTION CORPORATION OF TAMILNADU LTD (SIPCOT)**

To give main thrust to area development activities, the organization involves in the formation of industrial complexes by providing basic and comprehensive infrastructure facilities for the industries to set up their units. SIPCOT has so far developed 20 Industrial Complexes in 12 districts and Six Sector Specific Special Economic Zones (SEZs) across Tamil Nadu. SIPCOT also acts as a Nodal Agency of Government of Tamil Nadu in the sanction / disbursement of Structured Package of Assistance to large industrial units.

#### **17.26 Objectives of SIPCOT**

The main objective of SIPCOT is to identify the backwards areas where industries can be promoted and to develop industrial areas in that place. SIPCOT has established many industrial complexes and industrial parks in many places in the State of Tamil Nadu. Qualitative assistance is provided by SIPCOT. As a nodal

agency instead of crowding the already developed area they are working towards promotion of industries in backward areas.

Advantages of working with SIPCOT are, getting an already developed industrial complex with project assistance, statutory clearances within a short period and assistance in marketing too.

### **17.27 Industrial Complexes developed by SIPCOT**

SIPCOT has developed many industrial complexes across Tamil Nadu. Some of the locations are Bargur, Cheyyar, Cuddalore, Gangaikondan, Gummidipoondi, Hosur, Irungattukottai, Manamadurai, Nilakkottai, Oragadam, Perundurai, Pudikkottai, Ranipet, Siruseri, Sriperumpudur, and Thoothukudi.

### **17.28 Functions**

The Functions of State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) are:

- Development of industrial complexes/parks/industrial estate in Nallamballi Road growth centres with basic infrastructure facilities
- Establishing sector-specific Special Economic Zones (SEZs);
- Implementation of Special infrastructure Projects;

### **17.29 CONCLUSION**

The entrepreneur with his vision and ability to bear risk can transform the economic scene of the country. They play a vital role in initiating and sustaining the process of economic development of a nation. The overall aim of an entrepreneurial development programme is to stimulate a person for adopting entrepreneurship as a career and to make him able to identify and exploit the opportunities successfully for new ventures.

## **Questions**

1. What is DIC? Explain the objectives and functions of DIC?
2. What are Needs of SIDCO?
3. State the objectives and functions of SIDCO.
4. Explain the functions of NSIC?
5. What are the functions of IRCA?
6. State the function of NIDC.
7. Explain the objectives of SIDBI?
8. State the function of SIDBI.
9. What is the assistance rendered by the SISI?
10. What are the main functions of SISI?
11. State the role of SISI.
12. State the functions of SIPCOT.

## **UNIT – 5**

### **CHAPTER – 18**

#### **18.1 Introduction**

#### **18.2 Problems of Entrepreneurs**

#### **18.3 Sickness in small industries**

#### **18.4 Industrial sickness in India**

#### **18.5 Causes of sickness in small scale industry**

#### **18.6 Suggested remedies**

#### **18.7 Conclusion**

## **SSI UNITS**

#### **18.1 Introduction**

Small Scale Industries are those industrial undertakings having a fixed investment in plant and machinery, whether held on an ownership basis or a lease basis or a hire purchase basis and not exceeding Rs.1 crore. It has a larger

contribution to the growth of an economy. However, this investment money is varied by the Government from time to time.

A small scale unit is normally a one-man show and even in the case of a partnership the activities are mainly carried out by the active partner and the rest are sleeping partners. The area of operation of small units is localized, catering to the local or regional demand. Small industries are fairly intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce, and there is an abundant supply of labor. The Ministry of Small Scale Industries has now merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small, and Medium Enterprises (MSME).

#### Procedures for Setting up of a Small Scale Business

Small Scale Business provides more independence than the large scale business and through this type of business one can fulfill their dream to become an entrepreneur. It eliminates much of the overhead expense and extensive planning required in larger business ventures. One can set up small-scale industries by following the simple procedures, which are as follows:



- 1. Decision Making:** *First of all*, you need to prepare the description for the small scale industry you want to set up. It is necessary to decide whether you wish to set up a corporation, proprietorship or partnership. The potential entrepreneur has to analyze his strength, weakness while deciding for entrepreneur career. This analysis helps in knowing what type and size of business would be the most suitable.
- 2. Scanning Of Business Environment:** Before setting up your industry, it is always essential to study and understand the prevailing business environment in which they operate particularly the industrial policy, economic policy, licensing

policy, legal environment, and technological environment. The environment impacts a lot in setting up a proper industry.

**3.Product Selection:** You need to decide the product you wish to manufacture or the service you wish to offer. While choosing the product or service you want to offer, you must conduct a good market research and learn about the prevailing competition in the market.

**4.Location:** You need to choose a location to set up your small scale industry. While choosing the location such factors such as nearness to market, sources of material availability of raw materials, labor, transportation services, modern infrastructural facilities and other things are considered. Location determines the success or failure of the enterprise.



**5.Technology:** To manufacture any item, technology is used. The entrepreneur should collect information on all available technologies, and the most suitable one should be identified. This will also be useful to determine the type of machinery and equipment to be installed.

**6.Project:** Project appraisal means the assessment of a project. It is a technique for ex-ante analysis of a scheme or project while preparing to set up an enterprise; the entrepreneur has to appraise the project carefully from the standpoint of economic, financial, technical, market, social and managerial aspects to arrive at the most socially-feasible enterprise.

**7.Finance:** Finance is the lifeblood of the enterprise. So, the next big step is to arrange for finance. No business can be created, with zero capital. If you don't have enough finance and then the best way is to borrow or take a loan.



**8.Provisional Registration:** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries.

**9.Production Management:** Production management is the next step, once you can start your small scale industry. This includes allocating space for different operations and choosing your production methods. You are required to purchase machinery and hire employees and workers for different departments.

**10.Power And Water Connection:** The sites where the enterprise will be located should either have adequate power connections, or it should be arranged. The entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise, as it can materially affect the installation cost.

**11.Installation of Machinery:** Once the above formalities have been completed; the next step is to procure machinery and begin its installation as per the plant layout.

**12.Insurance:** It is necessary to have adequate insurance for fixed assets at this stage and later on for the current assets as well.

**13.Recruitment of Manpower:** Once machines are installed, the need for manpower arises to run them. So, the quantum and type of manpower are to be decided. The sources of getting desired labor are also important. This follows the recruitment, training, and placement.



**14.Production:** The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery, and methods effectively. There should not be any wastage of manpower, machinery, and



materials. If items are exported, then the product and its packaging must be attractive.

**15. Marketing:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Marketing and business advertising form the next big step of setting up a small scale industry. Online business directories and various traditional forms of advertising can gain exposure for your business. Prices for your products or services are decided to keep in mind the profit margin.

**16. Quality Assurance:** Before marketing, the product quality certification from BIS (Bureau of Indian Standard)/ AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there are no quality standards specified for the products, the entrepreneur should evolve his quality control parameters.

**17. Permanent Registration:** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from the DIC or Directorate of Industries.



**18. Market Research:** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, up gradation and growth.

**Monitoring:** Periodical monitoring and evaluation not only of markets but also production, quality, and profitability help in knowing where the firm stands in comparison to performance envisaged in the business plan. It also identifies the direction of future growth. Therefore, planning is a useful aspect of setting up a small scale. According to business, at every stage, you are required to improve your plan.

## **18.2 PROBLEMS OF ENTREPRENEURS**

### **Introduction**

The lure of independence, profit and opportunity lead many to choose entrepreneurial pursuits. The avenues open to entrepreneurs today are greater than ever as the Internet has opened a new field of Web-based business opportunities. Just because there are plenty of opportunities do not mean that starting a profitable business is easy. Financial issues, management problems and marketing failures are issues that many startups face.

**The following problems are faced by the entrepreneurs:**

### **1. Insufficient Capital**

Lack of capital plagues many startup firms, and many close because of it. In addition to a lack of capital, insufficient cash flow compounds the problem. In the early days of its life, a startup company may have no cash flow. When product is available to sell, pricing may be difficult.

Set the price too low and not enough revenue is generated; set it too high and the resulting slow sales have a negative impact on revenue. The Jumpstart Our Business Startups, or JOBS, Act of 2012 addressed some of the problems of small business finance, opening the door for private investors through angel financing and crowd funding.

### **2. Weak Management**

The knowledge and skills of a creative entrepreneur do not necessarily equate to being an effective manager. This dichotomy can surface in several ways. A product that is beautiful to its inventor may not be viewed that way by others, and if the entrepreneur cannot recognize that, no amount of management expertise is going to help. Even with a successful product, the founding entrepreneur may not relinquish the management reins to a person more adept at managing a startup. A weak manager is likely to hire a weak management team with the result being an inadequate business plan and poor operational performance.

### **3. Ineffective Marketing**

While a small business startup may have a unique product with potentially significant market appeal, it must be able to advertise in a cost-effective manner. Without adequate market research, an entrepreneur has no clue if the timing is right to introduce a new product or if the market is large enough to support the business. Without a clear understanding of the market, the entrepreneur may spend too much to acquire new customers. If the cost to acquire them is greater than the revenue the customer generates, then the firm cannot earn a profit.

## **18.3 SICKNESS IN SMALL INDUSTRIES**

### **Introduction**

Industrial sickness is defined in India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year"

## **18.4 INDUSTRIAL SICKNESS IN INDIA**

Industrial sickness specially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem.

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4 lakhs unit

were also reported to be ailing. And this position also remains same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1,47,740 involving an outstanding bank credit of Rs. 4874 crores.

- Where the total numbers of large Industries which are sick were 637 units at the end of year 1985 increased to 714 units in the end of next year 1986.
- Likewise on the other hand the numbers of sick small scale units were also increased 1.18 lakhs at the end of 1985 to 1.46 lakhs at the end of 1986.
- The bank amount which was outstanding in case of large industries for the same period also increased from Rs.2,900 crores to Rs. 3287 crores at the end of year 1986
- Dues of Small Scale sector also increased from Rs.1071 crores to Rs.1306 crores at the end of the year 1986.
- Of the 147, 740 sick industrial units which contains large medium as well as small scale involving the total bank loan(credit) of Rs. 4874 at the end of the year 1986.

## **18.5 CAUSES OF SICKNESS IN SMALL SCALE INDUSTRY**

The different types of industrial sickness in Small Scale Industry (SSI) fall under two important categories. They are as follows:

### **I . Internal causes for sickness**

We can say pertaining to the factors which are within the control of **management**. This sickness arises due to internal disorder in the areas justified as following:

**a) Lack of Finance:** This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

**b) Bad Production Policies :** Another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad

maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

**c) Marketing and Sickness :** This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

**d) Inappropriate Personnel Management:** Another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labour relations, lack of behavioural approach causes dissatisfaction among the employees and workers.

**e) Ineffective Corporate Management:** Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

## **II. External causes for sickness**

**a) Personnel Constraint:** The first for most important reason for the sickness of small scale industries are non-availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

**b) Marketing Constraints:** The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restraint of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

**c) Production Constraints:** This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

**d) Finance Constraints:** Another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

## **18.6 SUGGESTED REMEDIES:**

Some of the effective measures which may be taken for revival of sick units are technical help, professional counseling and improved management. Also, the role of professionals and experienced management becomes more important in times of sickness.

In addition to technical and professional consultants, no sick industry will ever be able to recuperate without sufficient, timely and soft finance. Bankers are the key to the problem. The role of the bankers needs to be redefined and a new direction needs to be given to support aid and lift sick industrial units from the situations that befall them. It is also the level of service and support in terms of financial advice, assistance in related matters of insurance, release of hypothecated assets and timely finance.

The Sick Industrial Companies (Special Provisions) Bill, 1997, passed by Lok Sabha, introduced encouraging changes. It suggested that a time-bound procedure was to be adopted within which the scheme has to be sanctioned and BIFR would play the role of a mediator and not a court.

Technical obsolescence and financial mismanagement are also important factors that lead to industrial sickness. As per the new provisions, an opportunity will be given to get an unanimous consent to a scheme from all concerned, failing which secured creditors will attempt to form a scheme and, if all this fails, the undertaking would be sold off. Only if it is not possible to do that, the BIFR may order winding up of the company.

## **18.7 Conclusion**

If you are starting a small business -- or just considering it -- you face great odds and opportunities. While some of the challenges cannot be anticipated or avoided, many can. Lack of capital, management problems and marketing issues can be addressed before they arise. Learn from others. Numerous sources of information are available to you. Check with the continuing education department of a local

college or call the Small Business Administration for assistance. Work with SCORE, formerly Service Corps of Retired Executives, to develop a solid business plan. SCORE volunteers can give you advice from those who have experience.

### **Questions**

1. What is SSI units? Explain the causes of sickness in small scale industry
2. What is provisional registration?
3. How do you choose a location for SSI units?
4. Explain the procedures for setting up of a small scale business.
5. What are the problems faced by the entrepreneurs?

## **CHAPTER– 19**

### **19.1 Introduction**

### **19.2 Meaning**

### **19.3 Advantages of providing Incentives to Entrepreneurs**

### **19.4 Subsidy schemes**

## **INCENTIVES AND SUBSIDIES**

### **19.1 Introduction**

Incentives, subsidies and complementary services can include gifts, rewards, or monetary assistance that not only promote the use of financial services, but make them more affordable. When these incentives and services are well-designed (i.e., ‘smart’) they are valuable tools in not only attracting new clients, but also retaining and empowering young customers. However, the sustainability component is often more challenging.

### **19.2 Meaning**

**Incentive:** The term “incentive” generally means encouraging productivity. It is a motivational force, which encourages an entrepreneur to take a right decision

and act upon it. The objective of providing incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation and the society.

**Subsidy:** Subsidy is a financial assistance or a sum of money provided by a government, to an industry for public welfare or interest. It is any financial aid, grant, or contribution.

“Subsidy” means a **single lump sum of money** that is given by a Government to an entrepreneur to cover the cost.

**Bounty:** The term “bounty” denotes a **bonus or financial aid** given to an industry to help it to compete with other units established in country or in a foreign market.

### **Incentives available for encouraging Entrepreneurship under different schemes of Govt. Of India**

- Agricultural and Processed Food Products Export Development Authority (APEDA) mission is to develop agricultural commodities and processed food to promote exports. APEDA provides financial support for packaging development, export promotion and market development etc.
- Ministry of Food Processing Industries (MoFPI) covers setting up technology up gradation, modernization of food processing industries in fruits & vegetables, pulses etc. The scheme provides 25% of the cost of plant & machinery and technical civil works subject to a maximum of Rs.50 lakhs in general areas and 33% up to Rs.75 lakhs in difficult areas like NER.
- National Horticulture Board (NHB) provides financial support for land development, cultivation expenses, poly house or shade nets, farm tools etc.
- AmbedkarHastshilpVikasYojana (AHVY) wherein the main thrust is on a projectiles, need based approach for integrated development of potential handicrafts clusters with participation of the craft persons at all stages for



implementation of the scheme. AHVY extends financial support for development & supply of improved modern tools, design & technical development workshops, training, organizing seminar & exhibitions etc.

- Market Access Initiative (MAI) scheme is an Export Promotion Scheme formulated on focus product- focus country approach to evolve specific strategy for specific market and specific product through market studies/ survey. MAI provides financial support for opening showroom & warehouses, display in international departmental stores, publicity campaign and branch promotion etc.
- Tea Board extends support towards plantation, irrigation, transport vehicle, exhibitions, advertisement etc.
- Coffee Board extends support towards replantation, water augmentation, quality up gradation etc.
- Coconut Development Board provides financial support for production & distribution of planting material, integrated farming for productivity improvement, market promotion, coconut palm insurance scheme etc.
- Coir Board provides financial support for skill up gradation, organizing workshop & seminars, exposure tour and quality improvement programme. Mahila Coir Yojana (MCY) is the first woman oriented self-employment scheme by giving subsidy of 75% of the cost of purchase of rats to the trained women artisans.
- Rubber Board provides financial support for production & distribution of planting material, integrated farming for productivity improvement, market promotion etc.

### **19.3 Advantages of providing Incentives to Entrepreneurs**

#### **1. Decentralization of economic power:**

Incentives encourages prospective entrepreneurs to take up industrial ventures and results in decentralization of economic power in few hands.

## **2. Balanced regional development**

Incentives are given to entrepreneurs establishing industries in backward areas. Hence, it results in the dispersal of industries over India's geographical area and contributes to regional balanced development.

## **3. Transformation of Technology**

Incentives help in the transformation of traditional technology into modern technology. Traditional technology is characterized by low skill; low productivity and low wages, whereas modern technology is subsequently characterized by improved skills, high productivity, raising wages and a higher standard of living.

## **4. Overcomes Difficulties**

The package of incentives and concessions are given to entrepreneurs for setting up units both in backward as well as developed districts. But generally it is given for setting up units in backward area. It is provided to offset the disadvantages prevailing in such places.

## **5. Generates Industrialization**

Industrial policy uses incentives both to correct the market imperfections and to accelerate the process of industrialization in the country. Regional balances can also lead to effective utilization of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

## **6. Encourages Entrepreneurship**

The new entrants in the field face many obstacles on account of inadequate infrastructures. The new entrepreneur is supported by the government agencies through various incentives. Being a new entrant, an entrepreneur may lack marketing and entrepreneurial skills. An entrepreneur requires support from government agencies to compete with competitors. The subsidies and concessions motivate the entrepreneur both financially and non-financially and promotes entrepreneurship in the country by removing economic constraints.

## **7. Helps to Overcome Competition**

Incentives help the entrepreneur to survive and compete with the competitors. Some of the incentives are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period.

### **19.4 SUBSIDY SCHEMES**

To promote the development of the industrial sector, especially MSME sector, the government has introduced various schemes that provide financial subsidy to the eligible enterprises.

Some of these subsidy schemes are specifically for certain industrial sectors, while some of them like CLCSS are available for a wide range of industries. Some of the major subsidy schemes of the government and public institutions are provided below. These can be categorized as follows:

#### **Subsidy Schemes for Specific Industries**

##### **1. Textile Industry - Technology Upgradation Fund Scheme (TUFS)**

Ministry of Textiles introduced the Technology upgradation fund scheme (TUFS) for textiles and jute industry in April 1999 to facilitate induction of state-of-the-art technology by the textile units.

The benefits under the scheme include:

- 5% interest reimbursement of the normal interest charged by the lending agency on RTL, or
- 5% exchange fluctuation (interest & repayment) from the base rate on FCL, or
- 15% credit linked capital subsidy for SSI sector, or
- 20% credit linked capital subsidy for powerloom sector (An option for 'front ended' subsidy provided w.e.f. 1st October, 2005), or
- 5% interest reimbursement plus 10% capital subsidy for specified processing machinery.

IDBI, SIDBI and IFCI were the nodal agencies for Non-SSI textile sector, SSI textile sector and Jute sector respectively. However, w.e.f. 1st October, 2005, 13 additional nodal banks have been appointed under TUFS for determining eligibility & releasing the subsidy for the cases financed by them.

## **2. Food Processing Industry - Scheme for Technology Upgradation/ Establishment/ Modernization for Food Processing Industries**

This Scheme covers the following activities: Setting up/expansion/modernization of food processing industries covering all segments viz fruits & vegetable, milk product, meat, poultry, fishery, oil seeds and such other agri-horticultural sectors leading to value addition and shelf life enhancement including food flavours and colours, oleoresins, spices, coconut, mushroom, hops. The assistance is in the form of grant subject to 25% of the plant & machinery and technical civil work subject to a maximum of Rs. 50 lakh in General Areas and 33.33% upto Rs. 75 lakh in difficult areas.

## **3. Leather Industry – Integrated Development of Leather Sector (IDLS)**

The scheme is aimed at enabling existing tanneries, footwear, footwear components and leather products units to upgrade leading to productivity gains, right-sizing of capacity, cost cutting, design and development simultaneously encouraging entrepreneurs to diversify and setup new units.

The financial assistance under the Scheme will be investment grant to the extent of 30% of cost of plant and machinery for SSI and 20% of cost of plant and machinery for other units (i.e. non small scale units) subject to ceiling of Rs.50 lakh for technology up gradation /modernization and/or expansion and setting up a new

unit. The rate of assistance would be @ 20% for all units (both SSI and Non-SSI) above Rs.50 lakhs subject to ceiling of Rs.2 crore.

The nodal agency for release of assistance, monitoring and interface and coordination with FIs, Banks and the Government is SIDBI.

#### **4.Coir industry**

The Coir Board runs various subsidy schemes for the coir sector, as provided below:

- **Rejuvenation, Modernization and Technology Upgradation of the Coir Industry**

A Central Sector Scheme on Rejuvenation, Modernization & Technology Upgradation of the Coir Industry was launched during 2007-08, on a pilot basis, to facilitate the sustainable development of the Spinning and Tiny/Household Weaving Units of the coir industry by providing proper work sheds and enabling replacement of traditional age old ratts with motorized ratts in the Spinning sector and replacement of traditional looms with the mechanized looms in the Tiny/Household sector in the first phase, during XI Plan. The main objectives of the scheme include modernization of Coir industry by adoption of modern technology in production and processing of Coir in the spinning and weaving sectors; Upgradation of the production and processing technology for improving the productivity and quality; and increasing the efficiency and productivity for enhancing the earnings of the workers and income of spinners/ tiny-household sectors, among others.

The norms of assistance are as below:

- **Spinning unit:** The financial assistance or government grant/subsidy would be 40% of the project cost subject to a maximum of Rs. 80,000 (Rupees eighty thousand only) per unit.
- **Tiny/ household unit:** The financial assistance or government grant/subsidy would be 40% of the project cost subject to a maximum of Rs. 2,00,000 (Rupees two lakh only) per unit.

## **5.Extension of Financial Assistance to Coir units in the Brown Fibre sector**

The Coir Board runs a scheme for financial assistance to the coir units in the brown fiber sector. The rate of financial assistance under the scheme is 25% of the cost of equipment's and infrastructural facilities subject to certain ceiling limits based on the type of unit.

### **Scheme for Extension of Financial Assistance for Generator Set / Diesel Engine**

The purpose of the scheme is to give one time subsidy to fibre/ curled coir production units in the brown fibre sector to carry out production at periods of power cut/ low voltage and to ensure supply of brown fibre and curled coir to meet the requirements of rubberized coir products, coir rope, yarn and mats and matting sectors.

The quantum of subsidy for one unit will be 25% of the cost of generator set subject to a maximum of Rs.50,000/-. This will be a one-time financial assistance and will be granted on the basis of expenditure incurred by the unit.

## **6. Other Subsidy Schemes of the Central Government**

### **Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS)**

The Scheme was launched in October, 2000 and revised w.e.f. 29.09.2005. The revised scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of Plant and Machinery. Maximum limit of eligible loan for calculation of subsidy under the revised scheme is also been raised Rs. 40 lakhs to Rs. 100 lakh w.e.f. 29-09.2005. The Small Industries Development Bank of India (SIDBI) and the National Bank for Agriculture and Rural Development (NABARD) will continue to act as the Nodal Agencies for the implementation of this scheme.

## **7. Quality Upgradation/Environment management for small scale sector through incentive for ISO 9000 /ISO 14001 /HACCP Certifications**

In order to enhance the competitive strength of the small scale sector, the Government introduced an incentive scheme for their technological upgradation/quality improvement and environment management. The scheme provides incentive to those small scale/ ancillary undertaking who have acquired ISO 9000/ISO 14001/HACCP certifications. The scheme for ISO 9000 reimbursement in operation since March, 1994 has now been enlarged so as to include reimbursement of expenses for acquiring ISO 14001 certification also.

The Scheme envisages reimbursement of charges of acquiring ISO-9000/ISO-14001/HACCP certifications to the extent of 75% of the expenditure subject to a maximum of Rs. 75,000/- in each case. The Scheme is valid upto 31st March 2012.

## **8. Market Development Assistance Scheme for Micro, Small & Medium Enterprises**

The scheme offers funding for participation by manufacturing Small & Micro Enterprises in International Trade Fairs/ Exhibitions under MSME India stall; sector specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation; initiating/ contesting anti-dumping cases by MSME Associations and reimbursement of 75% of one time registration fee (w.e.f. 1st January 2002); and 75% of annual fees (recurring) (w.e.f. 1st June 2007) paid to GSI (Formerly EAN India) by Small & Micro units for the first three years for bar code.

The permissible subsidy is as below:

- The Govt. of India will reimburse 75% of air fare by economy class and 50% space rental charges for Micro & Small manufacturing enterprises of General category entrepreneurs.
- For Women/SC/ST Entrepreneurs & Entrepreneurs from North Eastern Region Govt. of India will reimburse 100% of space rent and economy class air fare.
- The total subsidy on air fare & space rental charges will be restricted to Rs.1.25 lakhs per unit.

### **9. Financial Assistance on Bar Code**

The basic objective of financial assistance is to enhance the marketing competitiveness of Micro & Small Enterprises (MSEs) by way of:

- Providing 75% of one-time registration fee and annual recurring fee (for first three years) paid by MSEs to GS1 India.
- Popularizing the adoption of bar codes on large scale amongst MSEs, and
- Motivating and encouraging MSEs for use of bar codes through conducting seminars on Bar Code, etc.

### **10. Subsidy Schemes of NSIC**

#### **i. Raw Material Assistance**

Raw Material Assistance Scheme aims at helping Small Scale Industries/Enterprises by way of financing the purchase of Raw Material (both indigenous & imported). This gives an opportunity to SSI to focus better on manufacturing quality products.

The benefits of the scheme include:  
Financial Assistance for procurement of Raw Material upto 90 days.

- SSI helped to avail Economics of Purchases like bulk purchase; cash discount etc
- NSIC takes care of all the procedures, documentation & issue of Letter of credit in case of imports.

#### **ii. Marketing Assistance**



Under the Scheme, marketing support is provided to Micro, Small & Medium Enterprises through National Small Industries Corporation (NSIC) to enhance competitiveness and marketability of their products, through following activities:

- Organizing International Technology Exhibitions in Foreign Countries by NSIC and participation in International Exhibitions/Trade Fairs
- Organizing Domestic Exhibitions and Participation in Exhibitions/ Trade Fairs in India
- Support for Co-sponsoring of Exhibitions organized by other organisations/ industry associations/agencies
- Buyer-Seller Meets
- Intensive Campaigns and Marketing Promotion Events
- Other Support Activities

#### 10.11. Performance and Credit Rating

A scheme for performance and credit rating for SSIs has been formulated in consultation with Indian Banks' Association (IBA) and Rating Agencies. NSIC has been appointed the nodal agency for implementation of this scheme through empanelled agencies.

Reimbursement of Performance and Rating Fee under this scheme is as below:

| <b>Turn Over of SSI</b> | <b>Reimbursement of Fee through NSIC</b>         |
|-------------------------|--|
| Upto Rs 50 Lacs         | 75% of the fee or Rs 25000/- (Whichever is less) |
| Above Rs 50 to 200 lacs | 75% of the fee or Rs 30000/- (Whichever is less) |
| More than Rs 200 lacs   | 75% of the fee or Rs 40000/- (Whichever is less) |

#### Questions

1. What is incentives?
2. What do you mean by subsidy?

3. What is bounty?
4. How the entrepreneurs are encourage by incentives schemes provided by the Govt. of India.?
5. What are the basic objective of financial assistance is to enhance the marketing competitiveness of Micro & Small Enterprises

## **CHAPTER- 20**

### **20.1 Introduction**

### **20.2 Rural entrepreneurship in India**

### **20.3 Rural entrepreneurship in changing environment**

### **20.4 Effect of Globalization on Rural Entrepreneurship**

### **20.5 Challenges faced by rural entrepreneurship in India**

### **20.6 Problem of rural entrepreneurship**

### **20.7 Conclusion**

## **Rural Entrepreneurship**

### **20.1 Introduction**

Rural entrepreneurship is now a days a major opportunity for the people who migrate from rural areas or semi - urban areas to Urban areas. On the contrary it is also a fact that the majority of rural entrepreneurs is facing many problems due to not availability of primary amenities in rural areas of developing country like India. Lack of education, financial problems, insufficient technical and conceptual ability it is too difficult for the rural entrepreneurs to establish industries in the rural areas. This paper makes an attempt to find out the Problems and Challenges for the potentiality of Rural Entrepreneurship. It also focuses on the major problems faced by rural entrepreneurs especially in the fields of Marketing of products, financial amenities and other primary amenities, i.e. availability of electricity, water supply, transport facilities and required energy etc

## 20.2 Rural Entrepreneurship in India

Who should be capable of making use of the government policies and schemes for the betterment of rural people? Some individuals who happen to be local leaders and NGOs and who are committed to the cause of the rural people have been catalytic agents for development.

Though their efforts need to be recognized yet much more needs to be done to reverse the direction of movement of people, i.e. to attract people in the rural areas. It means not only stopping the outflow of rural people but also attracting them back from the towns and cities where they had migrated. This is possible when young people consider rural areas as places of opportunities. Despite all the inadequacies in rural areas one should assess their strengths and build on them to make rural areas places of opportunities. This is much to do with the way one sees the reality of the rural areas. The way a survivor or job seeker would see things would certainly be different from those who would like to do something worthwhile and are ready to go through a difficult path to achieve their goals. It isn't that there is a dearth of people with such a mindset. But with time they change their minds and join the bandwagon of job seekers due to various complications. Enabling them to think positively, creatively and Entrepreneurship purposefully is most of the development of rural areas. Young people with such perspective and with the help of rightly channelized efforts would usher in an era of rural entrepreneurship.

The basic principles of entrepreneur which applied the rural development are:

- Optimum utilization of local resources in an entrepreneurial venture by rural population - Better distributions of the farm produce results in the rural prosperity.
- Entrepreneurial occupation rural population to reduce discrimination and providing alternative occupations as against the rural migration.
- To activate such system to provide basic '6 m'- manpower, money , material, machinery, management and market to the rural population.

### **20.3 Rural Entrepreneurship in changing Environment**

The changing global environment raises questions about the ability of traditional, small-scale businesses in rural areas to share the potential benefits offered by the changing environment.

The rapid (though declining) population growth, coupled with even faster urbanization, creates increasing demands. In India, urban populations in general grow about twice as fast as the overall total, and by 2020 they may exceed the size of rural populations. Such a major demographic trend challenges the capacities of some traditional small-scale businesses to cope with the increasing demands.

### **20.4 Effect of Globalization on Rural Entrepreneurship**

Since globalization is a macro-concept and rural entrepreneurship is a micro-concept, occurring in a very limited area, it is very difficult to establish causal linkages, or to quantify the specific effects of globalization on rural entrepreneurship. However, it is possible to identify a range of different channels through which various aspects of globalization can be expected to change the welfare of rural entrepreneurship in India.

#### **1) Productivity and efficiency effect**

Globalization is often said to result in higher productivity, due to the access to global markets, abilities to specialize, and to take advantages of economies of scale and scope. Exposure to the global competition can result in high levels of productivity and efficiency. However, it is less crucial for large economies like India. Again, the potential gains to rural entrepreneur are also large, because globalization enhances countries' abilities to exploit comparative advantages arising from differing natural and ecological conditions. At the level of national policy, these arguments seem to favour globalization. Still, it is very easy to see how the rural entrepreneur could still lose out. This is true in most case duet the lack of affordable facilities in rural areas. There are many other factors which place rural entrepreneurs at a disadvantage. Most of them, lack access to the technologies and

market information that would enable them to comply with quality specifications and effectively respond to emerging opportunities. They rarely have access to credit and the other financial services necessary to compete in the modern world.

Many face high transportation and input costs that further reduce their ability to compete. Additionally, there are some whose cultures place greater value on the maintenance of traditional ways of life, rather than on material success in a competitive world. Apart from these disadvantages, there is the wider question of whether the economic and institutional infrastructures, and the structure of policies, are favorable for small enterprises to succeeding international competition. In short, globalization presents real dangers to the rural entrepreneur, to set against the possible advantages for the wider economy.

## **2) Economic growth effect**

As already noted, the argument in favour of globalization is the positive link between globalization and rural entrepreneurship in India. Because the potential benefits include improved access to foreign technology and managerial expertise. There have been varied views concerning the connection between trade openness and rural entrepreneurship growth, and this has given rise to a large body of empirical literature, suggesting a positive relationship between trade openness and rural entrepreneurship growth.

Emergence of the WTO and the series of deliberations under the Uruguay round have changed the world economic order. Indian Government has shelved the earlier protectionist policies and opened up the economy to the world market. Undoubtedly, this has helped the Indian economy to recoup its strength with the flow of international capital and technology resulting in a robust economic position. The economy is moving steadily with more than 6 per cent DGP growth rate for the last two decades or so. However, the new economic order has posed severe challenges to the agricultural and rural sectors of the economy. Overall, it indicates that openness promotes faster growth. Still, the question remains as to what this might

do for the rural enterprises, particularly as little FDI flows into agriculture, least of all small-scale agriculture. The effect of globalization on rural enterprises depends upon the changes in GDP and changes in income distribution. The evidence suggests that the rural entrepreneur overall are substantially included as beneficiaries from economic growth. However, the extent of inclusion varies internationally.

### **3) Technological effect**

Transfer of technology is one of the prominent features of globalization and one of the major reasons for predicting improved growth. Many formerly small rural entrepreneurs saw major improvements in their businesses, but the improvements were in a very limited area and to a very limited number of entrepreneurs.

The focus today is on the potentials and dangers of biotechnology. In principle, the benefits here too may be large. The benefits may be from raising productivity, reduced risks of drought and pests, as well as lower food prices.

Biotechnology research has been more relevant to the problems of high-income countries. The benefits tend to be specific to particular environments, conditions or markets. As small number of multinational corporations is also carrying out much of the research.

There has been a general focus upon the problems of rural entrepreneurs in rich countries, with little attention being paid to developing countries' like India's basic food crops and the problems of their small farmers.

### **4) Distributional Effect**

It is not possible to gauge the overall effect of globalization on the level of inequality; the effect on women entrepreneur in rural area is less ambiguous. Many rural women entrepreneurs are hampered from benefiting from the changes arising from globalization. They have less access than men to education and training, less time to devote to productive activities, less command over important resources such as land, credit and capital.

Income developing countries, the sexual division of labor precludes women from income derived from cash crops. In addition, they also have less incentive to respond to economic signals, since they are likely to have less control over any income.

### **5) Transformational and insecurity effect**

Rural entrepreneurship is not always directly related to income. It can also refer to an intense level of insecurity. Many times those who have managed to improve their position are pressed back down again by natural disasters, inflation and other shocks.

Some aspects of globalization increase such problems. Globalization is generally associated with the accelerated pace of change in economic life and increased competitive pressures. This requires a speedy adaptation, which may simply be outside the range of those with few modern skills or other assets. As indicated earlier, globalization is linked to increased specialization, but this, for all its advantages, increases risks for rural entrepreneurs by pushing them to 'play all their cards'. These factors are further compounded by the transformational and insecurity effect due to volatile environment.

### **6) Policy**

Government of India has, in a sense, discriminated against agriculture and those enterprises that depend upon it. This 'discrimination' has typically taken the form of overvalued exchange rates, state trading monopolies for domestic and external marketing of agricultural commodities. Additionally, the revenues from commodity exports have been used for the growth of civil services and urban development, rather than reinvestment in agriculture.

## **20.5 CHALLENGES FACED BY RURAL ENTREPRENEURSHIP IN INDIA**

**1. Family Challenges:** Convincing to opt for business over job is easy is not an easy task for an individual. The first thing compared is – Will you make more money in the business of your choice or as a successor of family business. This is where it becomes almost impossible to convince that you can generate more cash with your passion than doing what your Dad is doing.

**2. Social Challenges:** Family challenges are always at the top because that is what matter the most but at times social challenges also are very important. Let us say you and your friend graduated at the same time. You opted for entrepreneurship and your friend opted for a job. He now has a flat, car and what not because he could easily get those with a bank loan but you still have nothing to show off and this is where the challenge comes.

**3. Technological Challenges:** Indian education system lags too much from the Job industry as a whole but then it lags even more when it comes to online entrepreneurship. What technology would be ideal and how to use that technology effectively?

**4. Financial Challenges:** (Difficulty in borrowing fund): Financial challenges are a lot different in India especially for online entrepreneurs. When you are starting out as an entrepreneur you don't opt for venture funding but try to go to funding for small to medium business people. Many such non-technical business people don't understand the online business models as a whole and so getting an initial business funding from them becomes challenging. The other option you can think of is a loan but bank loan is not at all an option in India for new online entrepreneurs.

**5. Policy Challenges:** Now and then there is lots of changes in the policies to change in the government.

Problems of TRIPS and TRIMS. Problems of raising equity capital, Problems of availing raw-materials, Problems of obsolescence of indigenous technology



Increased pollutions Ecological imbalanced. Exploitation of small and poor countries etc.

### **A. Opportunities**

1. Free entry into world trade.
2. Improved risk taking ability.
3. Governments of nations withdrawn some restrictions
4. Technology and inventions spread into the world.
5. Encouragement to innovations and inventions.
6. Promotion of healthy completions among nations
7. Consideration increase in government assistance for international trade.
8. The establishment of other national and international institutes to support business among the nations of the world.
9. Benefits of specialization.
10. Social and cultural development

### **B. Challenges for Rural Entrepreneurs**

1. Growth of Mall Culture
2. Poor Assistance-
3. Power Failure
4. Lack of Technical know how
5. Capacity Utilization
6. Infrastructure Sickness

### **C. Opportunities for Rural Entrepreneurs**

1. Crashed Scheme for Rural Development
2. Food for Work Program
3. National Rural Employment Program
4. Regional Rural Development Centers
5. Entrepreneurship Development Institute of India
6. Bank of Technology

7. Rural Innovation Funding
8. Social Rural Entrepreneurship.

#### **D. Need for Creating Indian Entrepreneurs- A Snapshot:**

A recent Mckinsey& Company-Nasscom report estimates that India needs at least 8,000 new businesses to achieve its target of building a US\$87 billion IT sector. In the next 10 years, 110-130 million Indian citizens will be searching for jobs, including 80-100 million looking for their first jobs.

In today's knowledge based economy is fertile ground for entrepreneurs, in India. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs. To achieve this, India must focus on the following area.

- Create the Right Environment for Success
- Ensure that Entrepreneurs have access to the Right Skill
- Ensure that Entrepreneurs have access to "Smart Capital"
- Enable Networking and Exchange
- Government Support: Both the Central and State Governments should take more interest in promoting the growth of entrepreneurship

#### **20.6 PROBLEM OF RURAL ENTREPRENEURSHIP**

Entrepreneurs are playing very important role in the development of economy. They face various problems in day to day work. As the thorns are part of roses, similarly every flourishing business has its own kind of problems. Some of the major Problems faced by rural entrepreneurs are as under.

##### **Financial Problems**

- Paucity of Funds : Most of the rural entrepreneurs fail to get external funds due to absence of tangible security and credit in the market. The procedure to avail

the loan facility is too time-consuming that its delay often disappoints the rural entrepreneurs. Lack of finance available to rural entrepreneurs is one of the biggest problems which rural entrepreneur is born now days especially due to global recession. Major difficulties faced by rural entrepreneurs include low level of purchasing power of rural consumer so sales volume is insufficient, lack of finance to start business, reduced profits due to competition, pricing of goods and services, Financial statements are difficult to be maintained by rural entrepreneur, stringent tax laws, lack of guarantees for raising up of loans, difficulty in raising capital through equity, dependence on small money lenders for loans for which they charge discriminating interest rates and huge rent and property cost. These all problems create a difficulty in raising money through loans. Landlords in Punjab proved to be a major source of finance for rural entrepreneurs but the rates of land are reduced due to global recession so they also lack hard cash nowadays.

### **Lack of Infrastructural Facilities**

The growth of rural entrepreneurs is not very healthy in spite of efforts made by government due to lack of proper and adequate infrastructural facilities.

- Risk Element :Rural entrepreneurs have less risk bearing capacity due to lack of financial resources and external support.

### **Marketing Problems**

- Competition : Rural entrepreneurs face severe completion of large sized organizations and urban entrepreneurs. They incur the high cost of production due to high input cost. Major problems faced by marketers are the problem of standardization and competition from large scale units. They face the problem in fixing the standards and sticking to them. Competition from large scale units also creates difficulty for the survival of new ventures.

New ventures have limited financial resources and hence cannot afford to spend more on sales promotion. These units are not having any standard brand name under which they can sell their products. New ventures have to come up with new

advertisement strategies which the rural people can easily understand. The literacy rate among the Problems Faced by Rural Entrepreneurs and Remedies to Solve It rural consumer is very low. Printed media have limited scope in the rural context. The traditionally bounded nature, cultural backwardness and cultural barriers add to the difficulty of communication. People in rural areas mostly communicate in their local dialects and English and Hindi are not understood by many people. It has been seen in the recent past that in spite of enough food stocks with government warehouses, people are dying of starvation. This indicates a problem with the public distribution system. The producers are not collective in their approach for marketing their products because they are too widely scattered and uneducated.

- **Middlemen**

Middlemen exploit rural entrepreneurs. The rural entrepreneurs are heavily dependent on middlemen for marketing of their products who pocket large amount of profit. Storage facilities and poor mean of transport are other marketing problems in rural areas. In most of the villages, farmers store the produce in open space, in bags or earthen vessels etc. So these indigenous methods of storage are not capable of protecting the produce from dampness, weevils etc. The agricultural goods are not standardized and graded.

## **MANAGEMENT PROBLEMS**

- **Lack of Knowledge of I.T**

Information technology is not very common in rural areas. Entrepreneurs rely on internal linkages that encourage the flow of goods, services, information and ideas.

The intensity of family and personal relationships in rural communities can sometimes be helpful but they may also present obstacles to effective business relationships. Business deals may receive less than rigorous objectivity and intercommunity rivalries may reduce the scope for regional cooperation. Decision

making process and lines of authority are mostly blurred by local politics in rural areas.

- **Legal formalities**

Rural entrepreneurs find it extremely difficult in complying with various legal formalities in obtaining licenses due to illiteracy and ignorance

- **Procurement of Raw Materials**

Procurement of raw materials is really a tough task for rural entrepreneurs. They may end up with poor quality raw materials, may also face the problem of storage and warehousing.

- **Lack of Technical Knowledge**

Rural entrepreneurs suffer a severe problem of lack of technical knowledge. Lack of training facilities and extensive services create a hurdle for the development of rural entrepreneurship.

- **Poor Quality of Products**

Another important problem is growth of rural entrepreneurship is the inferior quality of products produced due to lack of availability of standard tools and equipment and poor quality of raw materials.

## **HUMAN RESOURCES PROBLEMS**

- **Low Skill Level of Workers**

Most of the entrepreneurs of rural areas are unable to find workers with high skills. Turnover rates are also high in this case. They have to be provided with on the job training and their training is generally a serious problem for the entrepreneur as they are mostly uneducated and they have to be taught in the local language which they understand easily.

The industries in rural areas are not only established just to take advantage of cheap labor but also to bring about an integrated rural development. So rural entrepreneurs should not look at rural area as their market, they should also see the challenges existing in urban areas and be prepared for them. Rural entrepreneurs are

generally less innovative in their thinking. Youths in rural areas have little options “this is what they are given to believe”. This is the reason that many of them either work as farm or migrate to urban land.

- **Negative Attitude**

The environment in the family, society and support system is not conducive to encourage rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities. The young and well educated mostly tend to leave. As per circumstances, rural people by force may be more self-sufficient than their urban counterparts, but the culture of entrepreneurship tends to be weak.

## **20.7 Conclusion**

Continuous motivation is needed in case of rural employee which is sometime difficult for an entrepreneur to Problems In Rural Entrepreneurship Entrepreneurs are playing very important role in the development of economy. They face various problems in day to day work. As the thorns are part of roses, similarly every flourishing business has its own kind of problems.

### **Questions**

1. What is rural entrepreneurship?
2. What are the basic principles of entrepreneurship in rural development?
3. How the rural entrepreneurship is changing the environment?
4. What are the effects of globalization in rural entrepreneurship?
5. What are the challenges faced by rural entrepreneurship in India?
6. Explain the problems of rural entrepreneurship?

## **CHAPTER– 21**

### **21.1 Introduction**

### **21.2 Concept of Women entrepreneur**

### **21.3 Functions of Women entrepreneur**

## **21.4 Problems/Challenges faced by women entrepreneurs**

## **21.5 Developing women entrepreneurs**

## **21.6 Schemes for women entrepreneurs**

## **21.7 STEPS TAKEN BY GOVERNMENT FOR THE DEVELOPMENT OF WOMEN ENTREPRENEURS**

## **21.8 Conclusion**

# **WOMEN ENTREPRENEURS**

## **21.1 Introduction**

Women Entrepreneurs may be define as the women or a group of women who commence and operate a business venture. . Like a male entrepreneurs a women entrepreneur has many functions. They should explore the prospects of starting new enterprise; undertake risks, introduction of new innovations, coordination, administration and control of business and providing effective leadership in all aspects of business. Government of India has described women entrepreneurs as an enterprise/venture owned and controlled by women having at least financial interest of 51% of the capital and giving at least 51% of employment generated in the organization to women.

## **21.2 Concept of women Entrepreneur**

Women entrepreneur may be defined as the women or group of women who take initiative to set up a business enterprise and to run it smoothly.

According to **Schoumpeter**'s concept, "women who innovate, imitator adopt a business activity are known as women entrepreneur".

Government of India, based on women participation in equity and employment of a business enterprise has defined women entrepreneurs as "an enterprise owned and controlled by a women having a minimum financial interest of 51% of a capital and giving atleast 51% of the employment generated in the enterprise to women".

However the definition of Government of India has been criticized by many on the condition of employment of atleast 51% of women worker.

To conclude, we can define “women entrepreneurs are those who generated business idea, set up an organization, combined the factors of production, operate the unit undertake risks and handle problems involved in operating a business enterprise.

### **21.3 FUNCTIONS OF WOMEN ENTREPRENEUR**

Being an entrepreneur woman also should perform all the functions, which an entrepreneur is expected to, perform in establishing an enterprise. Functions of entrepreneurs generally involve idea generation and screening, determination of objectives, preparation of project, analyzing product, deciding the form of organization, promoting and enterprise, rising funds, recruiting men, arranging for machines, materials etc. and running the business.

Decides, whether men or women, an entrepreneur is expected to perform the functions brought under the following three categories

1. Risk bearing
2. organisation, and
3. Innovations.

Frederick Harbison in his article has enumerated the following as the functions of a women entrepreneur:

1. Exploring the prospects of starting new enterprise.
2. Undertaking of risks and the handling of uncertainties.
3. Introduction of new innovations.
4. Imitation of successful ones in existence.
5. Coordination, administration and control of business activities.
6. Supervising and leading in all aspects of the business

### **21.4 PROBLEMS/CHALLENGES FACED BY WOMEN ENTREPRENEURS**



Being successful entrepreneur is so difficult because it is not easy to research, plan, organize, launch and manage an entrepreneurial venture successfully. Besides, due to race/gender, entrepreneurs face some additional challenges. Especially, minority and women entrepreneurs face all sorts of challenges.

### **1. Problem of Finance**

The main challenge, which women entrepreneurs face, is getting the funding they need to start and grow their businesses. Access to capital is a serious issue for minority and women entrepreneurs. A study by the Federal Reserve System of Small – business Financing Patterns found that minority small – business owners have an extremely hard time in getting credit.

Studies have shown that they have lower levels of available credit than do their male counterparts. So, the capital problem is definitely real and very serious. Access to capital to start and grow their entrepreneurial ventures is an extremely difficult barrier for women entrepreneurs.

### **2. Conflict between Work and Family**

Another challenge that women entrepreneurs, particularly, face is the conflict between work and family. Although this issue can, and does, arise for male entrepreneurs also, it is especially acute for women because many child – rearing and family responsibilities fall on them. Being an entrepreneur can be a 24 X 7( 24 hours a day, 7 days a week) commitment. Running a successful business often means finding a healthy balance between work and family levels.

### **3. Shortage of Raw Material**

Scarcity of raw materials is yet another challenge that women entrepreneurs face. They suffer from higher prices and lower discount rates.

### **4. Stiff Competition**

Women entrepreneurs face intense competition for their goods from organized sector and male entrepreneurs. This is because they do not have enough funds to spend on advertisement; canvassing, and publishing their products.

### **5. Limited Mobility**

In our country, mobility of women is highly limited on account of various reasons. They cannot travel freely from one place to another for business reasons. In order to set up an organization, an entrepreneur has to get sanctions at varied levels from various government departments all of which require free mobility. This is not possible in India.

### **6. Low Literacy Rate among women**

Rate of literacy among women is very low in India. Education is important for a person to be aware of latest technology, business trends, market knowledge etc. this creates additional problem for women entrepreneurs in setting up and running business enterprises.

### **7. Male – Dominated Society**

Male – domination is still the order of the day in our country. Equality between sexes is only on paper, speeches, constitution etc. In practice, still women are considered weak in all aspects. Men in the society dominate the business world and men in the families do not permit female members to start their ventures. The reputation of the family, the sense of prestige etc. come to the forefront. Discipline and integrity are demanded from the women. Their legitimate freedom and right to self – development and independent pursuit are denied. This acts as another barrier to women entrepreneurship.

### **8. Lack of Motivation**

Fear to failure is too much in women than men. This fear creates no motivation in them. Hence, lack of motivation among women entrepreneurs is considered as another barrier, which stands in the development of women entrepreneurs.

## **9. Low Achievement Need.**

Need for achievement is the most important pre-requisite for success in entrepreneurship. In India, urge to achieve is lacking. It acts as another barrier to succeed in their venture.

## **10.Low Risk – bearing Capability**

Generally, women in India are confined to the four walls of the house. They are less educated and thus, economically backward. This reduces their risk – bearing capability while running the enterprise.

## **11.Discrimination in Upbringing**

Right from early childhood, girls are taught not to be aggressive or independent. Initially they depend upon parents, later upon husbands and in old age upon sons. They are discouraged to move out of the family and take up their business. Such type of conservative attitude of the family members makes the women weak and passive in their approach. Normally others take decisions for them.

## **12.Marketing Problems**

Marketing is another area, which very often proved to be the graveyard of many small scale women entrepreneurs. It has been found the small scale entrepreneurs, owing to the high achievement orientation. Generally set higher goals in terms of marketing of their products or services but later on find them difficulty to achieve because of heavy competition, incurring huge advertisement cost and many other extraneous factors.

## **13.Occupational Mobility Problems.**

Occupational mobility, such as shifting from one product line to another is an area where women entrepreneurs generally found to be more at a disadvantageous position than their male counterparts.

## **14.Government Assistance Problems**

The women entrepreneurs were exasperated by the indifferent attitude of government officials of all the small industry related departments like taxation, labour, power, etc. i.e., when the authorities come to know that the unit is being run by a women, they discourage allotting sale tax number and giving electricity connection. Above all they have ignorance about various procedures, laws and complicated bureaucratic set up while dealing with entrepreneurial support organizations.

### **15. Production Problems**

Production in a manufacturing enterprise involves coordination of a number of activities. While some of these activities are in the control of entrepreneur there are others over which she has little control. Improper coordination or unintended delay in execution of any activity is going to cause production problems in the industry.

### **16. Personnel problems**

Efficient management of human resources is an important factor in determining the growth and prosperity of business enterprise; this is particularly true in case of small industry where the owners have to forge a close and more personal association with their employees. The women entrepreneurs also expressed their inability to change the negative attitude of labour force while some of them complained of unionism amongst them. Moreover the women entrepreneurs admitted the lack of experience and self – confidence on their part to deal with personnel working in their organizations.

### **17. Cut – throat competition with other group of men and established self – sufficient entrepreneurs**

Women entrepreneurs do not have a proper organizational set – up to pump in a lot of money for canvassing and advertisements. Thus they have to face a stiff competition with the men entrepreneurs who easily involve in the promotion and development area and carry out easy marketing of their products with both the

organized sector and their male counterpart. Such a competition ultimately results in the liquidation of women entrepreneurs.

### **18. Absence of proper support and back – up for women by their own family members and the outside world people**

Many a times their own family members are not supporting and cooperating as well as having encouraging attitude to dare to enter into the entrepreneurship field.

They are always making many pessimistic feelings to be aroused in their minds and making them feel that family and not business is a place meant for them. Due to such limited scope of help and cooperating from family and other people, they drop the idea of excelling in the enterprise field.

Besides women entrepreneurs face the challenges of managing business growth successfully, finding and keeping qualified employed, and keeping up with technology and other market changed. These are the challenged that all entrepreneurs face. However, due to society's slowly changing attitudes toward women entrepreneurs, they often face additional problems in handling these issues. Some people may question whether women entrepreneurs may have to prove themselves before some people will do business with them. Although these attitudes may seem out of place in today's multicultural and increasingly tolerant society, these issues are real of women entrepreneurs. However, even with the additional challenges they face, women entrepreneur are "**Making it**".

Apart from the above discussed problems there may occur other series of serious problems faced by women entrepreneurs are improper infrastructural facilities, high cost of production, attitude of people of society towards the women, modern business outlook, low needs of achievement and socio – economic constraints often put s women behind in the field of enterprise.

### **Solution for solving the above discussed problems**

1. There should be a continuous attempt to inspire, encourage, motivate and cooperate women entrepreneurs.
2. Attempts should be made to enhance the standards of education of women in general well making effective provisions for their training, practical experience and personality development programmes, to improve their overall personality standards.
3. Attempts to establish for them proper training institutes for enhancing their level of work – knowledge, skills, risk – taking abilities, enhancing their capabilities.
4. Attempts to bring about a society attitude change, generation of awareness and consciousness on the policy of self – development of women entrepreneurs.
5. Attempts by various NGO's and government organizations to spread information about policies, plans and strategies on the development of women in the field of industry, trade and commerce.
6. Establishing various policies to offer easy finance schemes for economically strengthening the position of women.
7. Forming a cooperative association of women entrepreneurs to mobilize resources and pooling capital funds, in order to help the women in the field of industry, trade and commerce.
8. Offering seed capital, up – liftmen schemes, women entrepreneurs fund etc. to encourage the economically.
9. To extend concessional rates facilities and schemes for women entrepreneurs to prosper in the field in the enterprise.
10. To establish all India forums to discuss the problems, grievances, issues, and filling complaints against constraints or shortcomings towards the economic progress path of women entrepreneurs and giving suitable decisions in the favour of women entrepreneurs and taking strictly stand against the policies

or strategies that obstruct the path of economic development of such group of women entrepreneurs. Thus by adopting the following aforesaid measures in letter and spirit the problems associated with women can be solved.

### **21.5 Developing women entrepreneurs**

Following efforts can be taken into account for effective development of women entrepreneurs.

1. Consider women as specific target group for all developmental programmers.
2. Better educational facilities and schemes should be extended to women folk from government part.
3. Adequate training programme on management skills to be provided to women community
4. Encourage women's participation in decision – making
5. Vocational training to be extended to women community that enables them to understand the production process and production management
6. Skill development too be done in women's polytechnics and industrial training institutes. Skills are put to work in training – cum – production workshops.
7. Training of professional competence and leadership skill to be extended to women entrepreneurs.
8. Training and counseling on a large scale of existing women entrepreneurs to remove psychological causes like lack of self – confidence and fear of success.
9. Counseling through the aid of committed NGO's psychologists, managerial experts and technical personnel should be provided to existing and emerging women entrepreneurs.
10. Continuous monitoring and improvement of training programmers.
11. Activities in which women are trained should focus on their marketability and profitability
12. Making provision of marketing and sales assistance from government part.

13. To encourage more passive women entrepreneurs the women training programme should be organized that taught to recognize her own psychological needs and express them.
14. State finance corporations and financing institutions should permit by statute to extend purely trade related finance to women entrepreneurs.
15. Women's development corporations have to gain access to open – ended financing
16. The financial institutions should provide more working capital assistance both small scale venture and large scale ventures
17. Making provisions of micro credit system and enterprise credit system to the women entrepreneurs at local level.
18. Repeated gender sensitization programmes should be held to training financiers to treat women with dignity and respect as persons in their own right.
19. Infrastructure, in the form of industrial plots and sheds, to set up industries is to be provided by state run agencies.
20. Industrial estate could also provide marketing outlets for the display and sale of products made by women
21. A Women Entrepreneur's Guidance cell should be set up to handle the various problems of women entrepreneurs all over the state.
22. District Industries Centers and Single Window Agencies should make use of assisting women in their trade and business guidance.
23. Programmes for encouraging entrepreneurship among women are to be extended at local level/
24. Training in entrepreneurial attitudes start at the high school level through well – designed courses, which build confidence through behavioural games.
25. More governmental schemes to motivate women entrepreneurs to engage in small scale and large scale business ventures.



26. Involvement of Non – Governmental Organizations in women entrepreneurial training programmes and counseling.

## **21.6 Schemes for women entrepreneurs**

Government, bank, and financial institutions have introduced different schemes for the development of women entrepreneurs in India. Of them important schemes are discussed below:

### **1. Development of women and children in Rural Areas (DWCRA)**

DWCRA is a scheme introduced by Government of India for the encouragement of women entrepreneurship. Generally a woman is unable to start a venture (independently) due to various reasons. The concept of teamwork has been introduced to make them courageous enough to start their own enterprises. This idea has been incorporated into a scheme and the Government implemented the scheme known as “The Development of women and children in Rural Areas (DWCRA)”

### **2. Schemes of IDBI**

a. **Interest subsidy scheme:** IDBI has formulated this scheme to encourage entrepreneurial development among women. IDBI provides training and post 0 training follow up expenditure upto Rs. 10,000.

Successful trained are eligible for interest subsidy up to Rs. 25,000 for one year if their start small scale unit. If the unit is medium scale, interest subsidy payable is Rs. 50,000

b. **Refinance scheme:** IDBI extends refinance facilities to banks and state financial corporation’s for their credits to women entrepreneurs. It is 100% in case of SFCs, and 75% n case of commercial banks.

c. **MahilaUdyamNidhi (MUN):** The IDBI has set up a special fund called MahilaUdyamNidhi with a corpus of Rs. 5 crores in order to provide seed capital assistance to women entrepreneurs who proposed to set up projects in SSI sectors.

The scheme is implemented by SIDBI. Here the following norms are followed by SIDBI

- i. Debt equity ratio should be 3: 1
- ii. Seed capital assistance is provided in the form of soft loan up to a maximum of 15% of the fixed cost
- iii. Minimum promoter's contribution is 10% of the fixed cost
- iv. Service charge of 1% per annum is charged
- v. Repayment period is 10 years including an initial moratorium period of 5 years
- vi. Seed capital assistance is provided without insisting on security.

d. **Mahila Vika Nidhi (MVN)** : This scheme extends assistance to the voluntary agencies that are engaged in extending to the entrepreneurs training in production methods, management and skill upgradation. Under this scheme women are giving loan to start their venture in the field like spinning, weaving, embroidery products, block printing, handlooms handicraft, bamboo products etc.

e. **Indirect loan** : IDBI has introduced another scheme under which it grants indirect loans. It is called indirect loans because loans are granted through state finance corporations and state industrial development corporations. The scheme is now transferred to small industries development bank of India.

### **3. Scheme of Karnataka SFC**

With a view to encourage women entrepreneurs to start enterprises, the corporation grants loans up to Rs. 60 lakhs for private and public limited companies, and up to Rs. 30 lakhs to proprietorship and partnership concerns. Interest rates are 12% for backward areas, and 13% for all places of Karnataka other than Bangalore metropolitan area, and North and south Taluks of Bangalore. In case of prompt repayment is to be made within a period of 8 years.

4. **Scheme of IFCI**: Industrial Finance Corporation of India grants interest subsidy up to Rs. 20,000 to industrial units set up by women entrepreneurs.

5. **Rajasthan Financial Corporations Scheme:** In order to promote enterprises by women entrepreneurs, Rajasthan Financial Corporation grants loans up to Rs. 10 lakhs. Contribution towards share capital by the entrepreneurs is 10% of the project cost. It allows seed capital assistance up to 15% of the project cost.

6. **SBI StreeShakthi Package:** The Stree Shakti Package is a unique scheme run by the SBI, aimed at supporting entrepreneurship among women by providing certain concessions. An enterprise should have more than 50% of its share capital owned by women to qualify for the scheme.

The concessions offered under the Stree Shakti Package are:

- The margin will be lowered by 5% as applicable to separate categories.
- The interest rate will be lowered by 0.5% in case the loan exceeds Rs 2 lakh.
- No security is required for loans up to Rs 5 lakh in case of tiny sector units.

7. **SIDBI's Assistance for women entrepreneurs:** The Small Industries Development Bank of India (SIDBI) has designed schemes for providing financial assistance to women entrepreneur's These schemes aim at the following objectives.

- i. Providing training and extension services according to their small socio – economic status
- ii. Providing financial assistance at concessional terms to help them in setting up tiny and small units.

8. **Bank of India's PriyadarshiniYojana:** With a vision to make powerful the women by offering loans to women industrialist, a proposal named as 'PriyadarshiniYojana' was started in the year of 1989 in India. In this 'PriyadarshiniYojana' women industrialist are comprehensive loan services at liberal conditions & at concessional fee of interest, for financial actions. The prominent features of the proposal currently are as listed below:-

### **Eligibility**

Women entrepreneurs should be there and she must be havinghold of not fewer than fifty one percent the fiscal holding.

## **Purpose**

For financial actions such as:

- i) Buy apparatus, machinery, means of transportation, fixtures / furniture etc. required for assets investment & working resources requirements
- ii) Farming and Allied actions
- iii) Education credit

## **Loan Amount**

Loan amount depends on the need and project expenditure/ earnings etc.

### **9. Some Microfinance options available to under – privileged women:**

Microfinance is a type of banking service which provides access to financial and non-financial services to low income or unemployed people. Microfinance is a powerful tool to self-empower the poor people especially women at world level and especially in developing countries. Microfinance activities can give them a means to climb out of poverty. From early 1970's women movement in number of countries increasing to alleviate poverty through microfinance programs. The problem of women less access to credit was given a particular concentration at First International Women Conference in Mexico in 1975. The evolution of microfinance is from Bangladesh since late 1970s and a very successful project.

But in Pakistan, the movement of microfinance sector started from Agha Khan Rural Support Program (AKRSP) and Orangi Pilot Project (OPP). With the passage of time microfinance becomes NGO activity and five microfinance banks have been started under State Bank of Pakistan (SBP) ordinance. Microfinance services lead to women empowerment by positively influencing women's decision making power at household level and their overall socioeconomic status. By the end of 2000, microfinance services had reached over 79 million of the poorest of the world. As such microfinance has the potential to make a significant contribution to gender

equality and promote sustainable livelihood and better working condition for women. (ILO Geneva) It has been well documented that an increase in women resources or better approach for credit facilities results in increased well being of the family especially children.

Presently, in most of the developing countries like India higher emphasis is being laid upon the development of women as an entrepreneurs and their active participation in the development process of their country. Women can be successful and better entrepreneurs if given the much needed conducive environment and provided with enough resources most importantly the required amount of capital. The studies of rural women have proved their business excellence. They have been found to be better in credit utilisation than men but because of lack of access to assets they are often more vulnerable to poverty than males.

10. **Dena Bank** :This bank has special schemes to finance women entrepreneurs. Some incentives offered are 5% concession in the interest rate, no processing fee, easy payment options and no penalty for repayment. The loan amount is up to 5 lakhs for women entrepreneurs who are professionals. The loan is also extended to artists, small and medium cottage industries run by women.

11. **Canarabank** :This is a loan to meet the financial needs of women, who may be house wives, working women or self-employed women. It can be used to buy house hold articles, gold, jewelry computers etc. Women between the ages of 18 to 55 can avail this loan. For the salaried and self-employed as well as for women with a family income of 1.5 lakhs, the loan limit is 50,000 INR.

12. **Union bank of India** :

**Name of the loan: VIKLANG MAHILA VIKAS YOJANA** This is a special scheme for handicapped women for starting their own ventures. Physically handicapped women are identified and after providing vocational training according to their aptitude, financial assistance of 25,000 is offered to start the new venture.

13. **UCO bank** :This scheme is to provide financial assistance to salaried women .Concession is offered on interest and the repayment is in 5years in equated installments.

#### **14. Central Bank of India**

**Name of the loan :Cent Kalyani** : This scheme is specially introduced to offer financial assistance to Women Entrepreneurs for economic pursuits in Industry, Agricultural and Allied Activities, Business or Profession. The Bank with a network of branches spread throughout the country welcomes women entrepreneurs to avail financial assistance for pursuing vocations of their choice.

15. **Oriental Bank of Commerce** :In this special scheme for the benefit of woman entrepreneurs, the loan amount offered is between 2 and 10 lakhs, with a 2 percent concession in interest. Loans above 10 lakhs are also offered at 1 percent concession. Enterprises consisting of all units managed by women and where they have a share of 51 percent are eligible for this loan. In case of term loans, the repayment period is up to seven years with a maximum grace period of 12 months depending on the nature of the activity.

#### **16. ICICI Bank :**

**Name of the loan : Women Account** This is a scheme formulated by the new generation bank for women. Under the scheme any woman, with any relative having an account in the bank can open an account without any documentation.

### **21.7 STEPS TAKEN BY GOVERNMENT FOR THE DEVELOPMENT OF WOMEN ENTREPRENEURS**

**1. Steps taken in Seventh Five-Year Plan:** In the seventh five-year plan, a special chapter on the “Integration of women in development” was introduced by Government with following suggestion:

**(i) Specific target group:** It was suggested to treat women as a specific target groups in all major development programs of the country.

**(ii) Arranging training facilities:** It is also suggested in the chapter to devise and diversify vocational training facilities for women to suit their changing needs and skills.

**(iii) Developing new equipment:** Efforts should be made to increase their efficiency and productivity through appropriate technologies, equipment and practices.

**(iv) Marketing assistance:** It was suggested to provide the required assistance for marketing the products produced by women entrepreneurs.

**(v) Decision-making process:** It was also suggested to involve the women in decision-making process.

**2. Steps taken by Government during Eight Five-Year Plan:** The Government of India devised special programs to increase employment and income-generating activities for women in rural areas. The following plans are launched during the Eight-Five Year Plan:

**(i)** Prime Minister Rojgar Yojana and EDPs were introduced to develop entrepreneurial qualities among rural women.

**(ii)** 'Women in agriculture' scheme was introduced to train women farmers having small and marginal holdings in agriculture and allied activities.

**(iii)** To generate more employment opportunities for women KVIC took special measures in remote areas.

**(iv)** Women co-operatives schemes were formed to help women in agro-based industries like dairy farming, poultry, animal husbandry, horticulture etc. with full financial support from the Government.

**(v)** Several other schemes like integrated Rural Development Programs (IRDP), Training of Rural youth for Self-employment (TRYSEM) etc. were started to alleviate poverty. 30-40% reservation is provided to women under these schemes.

**3. Steps taken by Government during Ninth Five-Year Plan:** Economic development and growth is not achieved fully without the development of women

entrepreneurs. The Government of India has introduced the following schemes for promoting women entrepreneurship because the future of small scale industries depends upon the women-entrepreneurs:

**(a)** Trade Related Entrepreneurship Assistance and Development (TREAD) scheme was launched by Ministry of Small Industries to develop women entrepreneurs in rural, semi-urban and urban areas by developing entrepreneurial qualities.

**(b)** Women Component Plan, a special strategy adopted by Government to provide assistance to women entrepreneurs.

**(c)** SwarnaJayanti Gram SwarozgarYojana and SwarnaJayantiSakshariRozgarYojana were introduced by government to provide reservations for women and encouraging them to start their ventures.

**(d)** New schemes named Women Development Corporations were introduced by government to help women entrepreneurs in arranging credit and marketing facilities.

**(e)** State Industrial and Development Bank of India (SIDBI) has introduced following schemes to assist the women entrepreneurs. These schemes are:

**(i)** MahilaUdyamNidhi

**(ii)** Micro Credit Scheme for Women

**(iii)** MahilaVikasNidhi

**(iv)** Women Entrepreneurial Development Programmes

**(v)** Marketing Development Fund for Women

**4.** Consortium of Women entrepreneurs of India provides a platform to assist the women entrepreneurs to develop new, creative and innovative techniques of production, finance and marketing.

There are different bodies such as NGOs, voluntary organizations, Self-help groups, institutions and individual enterprises from rural and urban areas which collectively help the women entrepreneurs in their activities.

## **5. Training programmes:**



The following training schemes specially for the self-employment of women are introduced by government:

- (i) Support for Training and Employment Programme of Women (STEP).
- (ii) Development of Women and Children in Rural Areas (DWCRA).
- (iii) Small Industry Service Institutes (SISIs)
- (iv) State Financial Corporations
- (v) National Small Industries Corporations
- (vi) District Industrial Centres (DICs)

#### **6. MahilaVikasNidhi:**

SIDBI has developed this fund for the entrepreneurial development of women especially in rural areas. Under MahilaVikasNidhi grants loan to women are given to start their venture in the field like spinning, weaving, knitting, embroidery products, block printing, handlooms handicrafts, bamboo products etc.

**7. RashtriyaMahilaKosh:** In 1993, RashtriyaMahilaKosh was set up to grant micro credit to pore women at reasonable rates of interest with very low transaction costs and simple procedures.

**21.8 Conclusion:** Entrepreneurship among women, no doubt improves the wealth of the nation in general and of the family in particular. Women today are more willing to take up activities that were once considered the preserve of men, and have proved that they're second to no one with respect to contribution to the growth of the economy. Women entrepreneurship must be moulded properly with entrepreneurial traits and skills to meet the changed in trends, challenges global markets and also be competent enough to sustain and strive for excellence in the entrepreneurial arena.

#### **Questions:**

1. Explain the concept of women entrepreneurs.
2. Explain the function of women entrepreneurs.
3. What are the problems faced by women entrepreneurs?

4. How to solve the problems of women entrepreneurs?
5. How do we develop the women entrepreneurs?
6. What are the schemes are available for women entrepreneurs?
7. What are the steps taken by the Government for the development of women entrepreneurs?