

# ***ENTREPRENEURSHIP DEVELOPMENT***

**AUTHOR**  
**Dr Ullas Chandra Das**

**CENTRE FOR DISTANCE AND ONLINE EDUCATION  
UTKAL UNIVERSITY, BHUBANESWAR-7**

**Centre for Distance & Online Education  
Utkal University, Bhubaneswar- 751007**

**ENTREPRENEURSHIP DEVELOPMENT**

<b>Entrepreneurship Development</b>			
<b>Block No</b>	<b>Block</b>	<b>Unit No</b>	<b>Unit</b>
<b>1</b>	<b>Entrepreneur</b>	<b>1</b>	<b>The Entrepreneur: General concept and definition</b>
		<b>2</b>	<b>Entrepreneur and Entrepreneurship, Entrepreneurial culture</b>
		<b>3</b>	<b>Types of Entrepreneurship, Entrepreneurial traits</b>
		<b>4</b>	<b>Woman Entrepreneur</b>
<b>2</b>	<b>Environment and Entrepreneurial Development</b>	<b>5</b>	<b>Entrepreneurial environment in India</b>
		<b>6</b>	<b>Entrepreneurial Development Programmes (EDPs) Role</b>
		<b>7</b>	<b>Relevance and Achievement of EDPs in India</b>
		<b>8</b>	<b>Institutions for entrepreneurial development.</b>
<b>3</b>	<b>Project Appraisal and Management</b>	<b>9</b>	<b>Search for business ideas, Project identification and formulation,</b>
		<b>10</b>	<b>Project appraisal</b>
		<b>11</b>	<b>Profitability and risk analysis, Sources of finance.</b>
<b>4</b>	<b>Legal and Statutory Environment for Small Industry Small Scale Industrial Undertakings</b>	<b>12</b>	<b>Legal formalities in setting up of SSIs Business Laws</b>
		<b>13</b>	<b>Governmental Setup in promoting small industries, Financial institutions</b>
		<b>14</b>	<b>Social Responsibility of Business</b>
		<b>15</b>	<b>Status of Small Scale Industrial Undertakings, Steps in starting a small industry,</b>
		<b>16</b>	<b>Incentives and subsidies, Problems in small enterprise management, Sickness and Preventions</b>

**CENTRE FOR DISTANCE AND ONLINE EDUCATION, UTKAL UNIVERSITY,**  
**BHUBANESWAR**

**Program Name: Master in Commerce Program Code: 030300**

**Course Name: Entrepreneurship Development**

**Course Code: MCM-2.5 Semester: I Credit: 4 Block No. 1 to 4 Unit No. 1 to 16**

---

**EXPERT COMMITTEE:**

**Dr PK Hota  
HOD, Commerce Dept  
Utkal University**

**Dr PK Pradhan  
Commerce Dept  
Utkal Univeristy**

---

**COURSE WRITER:**

**Dr. Ullas Chandra Das**

---

**COURSE EDITORS**

**Dr Biswo Ranjan Mishra  
Asst Prof, (S II), CDOE  
Utkal University**

---

**REFERENCES**

Kumar S.A Entrepreneurship Development. A new age International.

**MATERIAL PRODUCTION**

---

# **ENTREPRENEURSHIP DEVELOPMENT**

## **Unit- I**

### **CONTENTS**

Introduction to Entrepreneur.

- 1.1 Evolution of the word Entrepreneur.
- 1.2 Meaning of Entrepreneur.
- 1.3 Definition of Entrepreneur.
- 1.4 Internal and External factors of Entrepreneur.
- 1.5 Characteristics of an Entrepreneur.
- 1.6 Manager versus leaders
- 1.7 Functions of an Entrepreneur.
- 1.8 Types of Entrepreneur.
- 1.9 Relationship between entrepreneur and entrepreneurship.
- 1.10 Entrepreneurial culture
- 1.11 Development of Entrepreneurial culture.
- 1.12 Concept of Entrepreneurship.
- 1.13 Definition of Entrepreneurship.
- 1.14 Importance of Entrepreneurship.
- 1.15 Features of Entrepreneurship.
- 1.16 Growth of Entrepreneurship in pre-independence period.
- 1.17 Theories of Entrepreneurship.
- 1.18 Problems in the growth of Entrepreneurship.
- 1.19 Difference between Entrepreneurship and entrepreneur.
- 1.20 Types of Entrepreneurship.
- 1.21 Entrepreneurial Traits or competencies.
- 1.22 Meaning of motivation
- 1.23 Definition of motivation
- 1.24 Nature of motivation
- 1.25 Types of motivation
- 1.26 Importance of motivation
- 1.27 Theories of motivation
  - (i) Maslow's need Hierarchy Theory
  - (ii) Mc Clelland's three need model.
  - (iii) Aldeafer's ERG Theory
- 1.28 Meaning of Women Entrepreneur

- 1.29 Definition of Women Entrepreneur
- 1.30 Functions of Women Entrepreneur
- 1.31 Growth of Women Entrepreneur
- 1.32 Problems of Women Entrepreneur
- 1.33 Remedies for the problems of women Entrepreneurs
- 1.34 Summary
- 1.35 Self assessment questions.

## **Unit- II**

### **CONTENTS**

- 2.0 Entrepreneurial Development
- 2.1 Meaning of Entrepreneurial Development
- 2.2 Environmental factors
- 2.3 Socio-economic environment in the emergence of entrepreneurship
- 2.4 Meaning of EDPs
- 2.5 Definition of EDPs
- 2.6 Objectives of EDPs
- 2.7 Need of EDPs
- 2.8 Evaluation of EDPs
- 2.9 Problems in the conduct of EDPs
- 2.10 Suggestions to make EDPs successful
- 2.11 Organizing product/ process oriented EDPs
- 2.12 Course contents of EDP
- 2.13 Role of Entrepreneurial Development Programme
- 2.14 Relevance of Entrepreneurial Development Programme
- 2.15 Achievements of EDPs
- 2.16 Financial Institutions ^provide finance to entrepreneurship at National
- 2.17 Institutional support to small entrepreneurs
- 2.18 Specialized Institutions
- 2.19 Institutional support for EDPs
- 2.20 Summary
- 2.21 Self Assessment Questions

## **Unit- III**

### **CONTENTS**

- 3.1 Introduction to business ideas
- 3.2 Sources of business ideas
- 3.3 Idea and information sources
- 3.4 Techniques for generating new ideas.
- 3.5 Meaning of Project

- 3.6 Project classification
- 3.7 Project identification
- 3.8 Meaning and Significance of Project Report
- 3.9 Contents of Project Report
- 3.10 Formulation of project report
- 3.11 Planning Commission Guidelines  
Project Appraisal
- 3.12 Meaning and definition
- 3.13 Identification of Opportunity
- 3.14 Project feasibility study
- 3.15 Introduction to profit
- 3.16 Meaning and nature of profit.
- 3.17 Theories of Profit
- 3.18 Depreciation
- 3.19 Profit Planning and Forecasting
- 3.20 Cost volume-profit analysis
- 3.21 Objectives of cost-volume-profit analysis
- 3.22 Profit volume (P/V) ratio
- 3.23 Break even analysis
- 3.24 Risk analysis
- 3.25 Type or kinds of risks
- 3.26 Methods of Risk analysis
- 3.27 Criteria for evaluating proposal to minimise risk
- 3.28 Sources of finance
- 3.29 Summary
- 3.30 Self Assessment Questions

## **UNIT-4**

### **CONTENTS**

- 4.1 Constitution of small scale business
- 4.2 Legal formalities
- 4.3 Provisional Registration
- 4.4 Licensing systems of SSIs
- 4.5 SSI exemption skill as per budget 2003-2004
- 4.6 Rules regarding the Factories Act
- 4.7 Meaning and definition of small scale industries

- 4.8 Characteristics of SSI
- 4.9 Rationale of small scale industry
- 4.10 Objective of SSI
- 4.11 Scope of SSI
- 4.12 Role of SSI in economic development
- 4.13 Advantage of SSI
- 4.14 Government policy : Industrial policy resolutions
- 4.15 Government support to SSI during five year plan.
- 4.16 New policy initiative in 1999-2000 for small scale sector.
- 4.17 Impact of globalization and liberalization on SSI.
- 4.18 Impact of WTO/GATT on SSI
- 4.19 Meaning and need for support
- 4.20 Agencies of Government for SSI
- 4.21 Nature and types of support
- 4.22 Financial Institutions
- 4.23 Social responsibility of business
- 4.24 Meaning and definition of social responsibility
- 4.25 Responsibility of business towards different sectors of society.
- 4.26 Arguments for social responsibility of business
- 4.27 Arguments against social responsibility
- 4.28 Limits of social responsibility.
- 4.29 Barriers of social responsibility
- 4.30 Social responsibility – Indian situation
- 4.31 Summary
- 4.32 Self assessment questions

## **UNIT-5**

### **Contents**

- 5.1 Introduction to SSIs
- 5.2 Definition of small scale unit
- 5.3 Characteristics or features of small scale industry or (MSME)
- 5.4 Objectives of small scale industries or (MSME)
- 5.5 Small business as a seedbed of entrepreneurship.
- 5.6 Importance of small scale industry or (MSME)
- 5.7 Problems of Small Scale Industry or (MSME)

- 5.8 Steps to start an SSI
- 5.9 Introduction and meaning of incentives and subsidies.
- 5.10 Need for incentives
- 5.11 Types of central government subsidies and incentives
- 5.12 Foreign direct investment in SSI sector
- 5.13 Problems of small scale industries
- 5.14 Causes of Industrial Sickness
- 5.15 Consequences of Industrial sickness
- 5.16 Remedial Measures of Sickness in Industries.
- 5.17 Summary
- 5.18 Self assessment questions



# **UNIT – 1**

## **INTRODUCTION TO ENTREPRENURE**

### **AIMS AND OBJECTIVES**

After going through this unit, you will be able to :-

- Define the concept of entrepreneur
- Understand the functions of entrepreneur
- Understand the entrepreneurial culture.
- Define the concept of entrepreneurship.
- Discuss types of entrepreneurship.
- Understand entrepreneurial traits and motivation.
- Define women entrepreneur.

### **CONTENTS**

Introduction to Entrepreneur.

- 1.1 Evolution of the word Entrepreneur.
- 1.2 Meaning of Entrepreneur.
- 1.3 Definition of Entrepreneur.
- 1.4 Internal and External factors of Entrepreneur.
- 1.5 Characteristics of an Entrepreneur.
- 1.6 Manager versus leaders
- 1.7 Functions of an Entrepreneur.
- 1.8 Types of Entrepreneur.
- 1.9 Relationship between entrepreneur and entrepreneurship.
- 1.10 Entrepreneurial culture
- 1.11 Development of Entrepreneurial culture.
- 1.12 Concept of Entrepreneurship.
- 1.13 Definition of Entrepreneurship.
- 1.14 Importance of Entrepreneurship.
- 1.15 Features of Entrepreneurship.
- 1.16 Growth of Entrepreneurship in pre-independence period.
- 1.17 Theories of Entrepreneurship.
- 1.18 Problems in the growth of Entrepreneurship.
- 1.19 Difference between Entrepreneurship and entrepreneur.
- 1.20 Types of Entrepreneurship.
- 1.21 Entrepreneurial Traits or competencies.

- 1.22 Meaning of motivation
- 1.23 Definition of motivation
- 1.24 Nature of motivation
- 1.25 Types of motivation
- 1.26 Importance of motivation
- 1.27 Theories of motivation
  - (i) Maslow's need Hierarchy Theory
  - (ii) Mc Clelland's three need model.
  - (iii) Aldeafer's ERG Theory
- 1.36 Meaning of Women Entrepreneur
- 1.37 Definition of Women Entrepreneur
- 1.38 Functions of Women Entrepreneur
- 1.39 Growth of Women Entrepreneur
- 1.40 Problems of Women Entrepreneur
- 1.41 Remedies for the problems of women Entrepreneurs
- 1.42 Summary
- 1.43 Self assessment questions.

## INTRODUCTION TO ENTREPRENEUR

### 1.1 Evolution of the word Entrepreneur

The word 'entrepreneur' is derived from French word 'Entreprendre' which means undertaking the risk of enterprise and further it was used to designate an organizer of musical or other entertainments. Later in 16<sup>th</sup> century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17<sup>th</sup> century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices". Entrepreneur, according to Cantillon, is a bearer of risk, which is non-insurable. Schumpeter gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

### 1.2 Meaning of Entrepreneur

Entrepreneur is a person who tries to create something new, searches new opportunities, bears risk, unites various factors of production like land, labour and capital carries innovations and from his skill and farsightedness faces unforeseen circumstances and thereby earns profits. Entrepreneurs are the pioneers who are instrumental in the economic development, growth and development of and prosperity of a country.

### 1.3 Definition of Entrepreneur

There are various views about entrepreneur which are broadly classified into three groups, namely risk bearer, organizer and innovator.

**Entrepreneur as Risk Bear :** Richard Cantillon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a farmer who pays contractual incomes, which are certain to land owners and labourers and sells at prices that are 'uncertain'. He includes, merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production. F.H. Knight described entrepreneur to be a specialized group of persons who bears uncertainty. Uncertainty is defined as risk, which cannot be insured against and is incalculable. He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

**Entrepreneur as an Organizer :** According to J Baptist Say "an entrepreneur is one who combines the land of one, the labour of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit". Say made distinction between the role of capitalist as a financier and

the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of coordination, organization and supervision.

**Entrepreneur as an Innovator :** Joseph A. Schumpeter Peter in 1934 assigned a crucial role of 'innovation' to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

- (a) Introduction of new product in market
- (b) Use of new method production, which is not yet tested.
- (c) Opening of new market.
- (d) Discovery of new source of raw materials.
- (e) Bringing out of new form of organization.

Schums Peter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations.

Hence the concept of entrepreneur is associated with three elements risk bearing, organizing and innovating. Hence an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involvement in enterprise.

Some more important definitions of entrepreneur

1. **According to F.A. Walker :** "Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises".
2. **Marx** regarded entrepreneur as social parasite.
3. **According to Gilbraith :** "An entrepreneur must accept the challenge and should be willing hard to achieve something".
4. **Peter F. Drucker** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.
5. **According to E.E. Hagen :** "An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems".
6. **According to Mark Casson :** "An entrepreneur is a person who specializes in taking judgement decision about the coordination of scarce resources".
7. **Frank Young** defined entrepreneur as a change agent.

8. *According to Max Weber* : “Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs”.
9. *International Labour Organization (ILO)* defines “entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success”.
10. *Akhouri* describes “entrepreneur as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence and who is persistent in achieving the goal”.

#### 1.4 INTERNAL AND EXTERNAL FACTORS OF ENTREPRENEUR

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities.

##### Personal entrepreneurial characteristics

	<i>Core Competencies</i>	<i>Entrepreneurial Activities</i>
1.	<b>Initiative</b>	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	<b>Perceiving opportunities</b>	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	<b>Persistence</b>	Takes repeated or different actions to overcome obstacles.
4.	<b>Information gathering</b>	Consults experts for business and technical advice. Seeks information of a client or supplier’s needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.
5.	<b>Concern for quality work</b>	State desire to produce or sell a better quality product or service. Compares his performance favourably with that of others.
6.	<b>Commitment to contractual obligations</b>	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
7.	<b>Efficiency orientation</b>	Finds ways and means to do things faster, better and economically.
8.	<b>Planning</b>	Various inter-related jobs are synchronized according to plan.
9.	<b>Problem solving</b>	Conceives new ideas and finds innovative solutions.
10.	<b>Self-confidence</b>	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	<b>Experience</b>	Possesses technical expertise in areas of business, finance, marketing etc.
12.	<b>Self-critical</b>	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	<b>Persuasion</b>	Persuades customers and financiers to patronize his business.
14.	<b>Use of influences strategies</b>	Develops business contracts, retains influential people as agents and restricts dissemination of information in his possession.
15.	<b>Assertiveness</b>	Instructs, reprimands or disciplines for failing to perform
16.	<b>Monitoring</b>	Develops a reporting system to ensure that work is completed and quality norms.

17.	<b>Credibility</b>	<b>Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.</b>
18.	<b>Concern for employee welfare</b>	<b>Express concern for employees by responding promptly to their grievances.</b>
19.	<b>Impersonal relationship</b>	<b>Places long-term goodwill over short-term gain in a business relationship</b>
20.	<b>Expansion of capital base</b>	<b>Reinvests a greater portion of profits to expand capital of the firm.</b>
21.	<b>Building product image</b>	<b>Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.</b>

## **1.5 CHARACTERISTICS OF AN ENTREPRENEUR**

An entrepreneur should possess all such characteristics with the help of which he can perform various responsibilities successfully. The following characteristics are :-

### **1. Innovator**

Schumpeter differentiates between an inventor and innovator. An inventor discovers new methods and new materials and an innovator is the one who utilizes those discoveries and inventions. Not only this, the entrepreneur further exploits the inventions commercially and thus produces newer and better goods which give him profit and satisfaction.

Innovation may occur in the following forms :

- (i) The introduction of new goods.
- (ii) The introduction of new methods of production.
- (iii) The opening of a new market.
- (iv) The conquest of a new source of supply of raw-material.
- (v) The carrying out of the new form of organization of any industry.

The entrepreneur locates ideas and puts them into effect in the process of economic development. According to Baumol, an entrepreneur is a Schumpetarian innovator and something more than a leader.

### **2. Risk-taker**

Risk means the condition of not knowing the outcome of an activity or decision. A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved.

An entrepreneur is a calculated risk-tasker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge and he avoids high-risk situation because he wants to succeed. He likes achievable challenges.

An entrepreneur likes to take realistic risks because he wants to be successful. He gets greater satisfaction in accomplishing difficult but realistic tasks by applying his own skills. Hence,

low-risk situation and high-risk situation both are avoided because these do not satisfy the entrepreneur.

### **3. Organiser**

An entrepreneur has to bring together various factors of production, minimize losses and reduce the cost of production. Initially, he may take all the decisions but as the enterprise grows, he starts delegating the authority. He produces that best results as an organizer. Not only this, it is the entrepreneur who has to pick or select the right piece of land, choose the right person and opt for the finance. He must be able to inspire loyalty and hard work amongst the workers to raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

### **4. Creative**

Creatively, as field knowledge, seeks to explain how humans, either individually or collectively, reach solutions that are both novel and useful. Innovation means the effort to create purposeful ventures.

Harry Nystrom states that innovation may be defined as radical discontinuous change and creativity is the ability to devise and successfully implement such changes. Successful innovations depend on creativity and one of the most important requirements of an entrepreneur is to be creative as creativity may be taken as the cause and successful innovation as the effect.

### **5. Motivator**

McClelland explicitly introduces the need for achievement motivation as a psychological motive and implicitly emphasised the need for achievement as the most directly relevant factor for explaining economic behaviour.

Achievement motivation is a drive to overcome challenges, to advance and to grow. An entrepreneur is an achievement-oriented person, not 'money hungry'. He works for his desire for challenge, accomplishment and service to others.

Achievement concerns refers to the accomplishment of excellent, innovative and risk involving tasks. The organizational goal of an entrepreneur can be boosted by inculcating in him the need for achievement.

### **6. Technical Competent**

Success of an entrepreneur depends largely upon his ability to adopt latest technology. Technical knowledge implies the ability to devise and use new and better ways of producing and marketing goods and services. An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the ability that people can acquire with hard work.

An entrepreneur who has a high level of administrative ability, mental ability, communication ability, human relations ability and technical knowledge can be more successful

than a person with low level of these abilities. A dynamic entrepreneur must also be interested in changing the pattern of production to suit the requirements.

#### **7. Self-confident**

It is necessary for an entrepreneur to be self-confident. He should have faith in himself only then he can trust others.

In an expanded business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority. He can seek cooperation of his staff and inculcate a sense of team work in them.

#### **8. Socially Responsible**

The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others. On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others. He may invent new products and new manufacturing methods. He may innovate new ways of doing things. All these have social consequences. An entrepreneur should think of projects of social significance and of importance to others. He should expand his entrepreneurial activities, in order to help in creating conditions for social change and for development of business which benefit the society. Such an attitude for others raises the level of entrepreneurship from that of an individual activity to a meaningful social endeavour.

#### **9. Optimistic**

An entrepreneur should approach his task with a hope of success and optimistic attitude. He attempts any task with the hope that he will succeed rather than with a fear of failure. Such a hope of success enhances his confidence and drives him towards success.

#### **10. Equipped with Capability to Drive**

Drive is a person's motivation towards a task. It comprises of such personality traits as responsibility, vigour, initiative, persistence and ambition. An entrepreneur must exert considerable effort in establishing and managing his business. Those entrepreneurs who work hard in planning, organizing, co-ordinating and controlling their business are more likely to have a successful business than the entrepreneur who is lost and haphazard.

#### **11. Blessed with Mental Ability**

Mental ability that contributes to the success of an entrepreneur consists of overall intelligence, i.e. IQ, creative thinking ability and analytical thinking ability. An entrepreneur must be intelligent, adaptable, creative and he must be able to engage in analysis of various problems and situations in order to deal with them.

#### **12. Human Relations Ability**

Personality factors such as emotional stability, personal relations, sociability, consideration and tactfulness are important contributors to entrepreneur's success. One of the most important



facets of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. This is the ability to practice empathy.

The entrepreneur must have good relations with his employees, customers etc. He must be aware of the needs and motivations of customers if he is to adequately train his employees to maintain good customer relations.

### **13. Communication Ability**

An entrepreneur must possess the quality of communicating effectively in written and oral communications. Good communication also means that both the sender and the receiver understand and are being understood.

### **14. Decision-Making**

An entrepreneur must be clear and creative when it comes to decision-making. He must believe in himself and should be possessing ability to take decisions effectively. Decisions taken should be based on quantitative facts. Decisions which effect organisation's future and are likely to be irreversible must be taken with great care.

Here are some tips to become a good decision-maker (1) Define the problem, (2) Collect information and relevant data, (3) Begin with a brain storming session and discuss the problem with each other, (4) Never criticize or reject any solution suggested during the brain storming session, (5) Encourage group members to come up with potential solutions, (6) Reduce the number of alternatives to three or four after discussion, (7) Consider each alternative extensively and determine the best to meet your needs and (8) Implement decisions.

Decision-making is an art; the more one practices it, better expert he/she becomes.

### **15. Business Planning**

The decision to become an entrepreneur is the first step followed by the choice of the product. As the business venture is undertaken, need for planning arises. It is the rigor and thoroughness of the business plan which could be behind the successful entrepreneur throughout his venture's life.

Planning is really nothing more than decision-making, that is, deciding what to do, how to do and when to do. It is vital for the success of a business. As a business person puts it:

"Planning is so important today that it occupies a major part of the time of the most respective men in business. Planning allows us to master change. It forces us to organize our expectations and develop programs to bring them about. Planning is the most effective way to draw out the best in all of us-our best thinking, out best interests and aims and to enable us to develop the most efficient way of achieving our maximum goals".

## **16. A Venture Capital**

A David Silver, a successful capitalist described an entrepreneur as “Energetic”, single-minded”, having ‘a mission and a clear vision”. He or she intends to create out of this vision a product or service in a field which many have determined is important to improve the lives of millions”. Silver also suggests that entrepreneurs venture out on their own from a sense of dissatisfaction with their organization, but they are not necessarily unhappy with their existing career fields.

## **17. Visionary**

Entrepreneurs are visionaries like J.R.D. Tata, Dhirubhai Ambani, Narayanamurthy, Aziz Premji etc. Entrepreneurs have a vision for growth, commitment to constructive change, persistence to gather necessary resources and energy to achieve results. An Entrepreneur is distinguished from a small business person. A person who leaves his job to start an independent business is not an entrepreneur. Constructive change is an essential feature of a visionary. For example, Gulshan Kumar (T-Series) was a venture capitalist and a visionary as well. He has left behind an unequalled legacy of music innovations. Henry Ford created the manufacturing miracle that launched a modern era in industry.

An effective visionary performs two key roles : (i) A charismatic role which involves establishing support for a vision and direction. He inspires and empowers his employees for support. Secondly, he plays an architectural role in order to build an appropriate organization structure. He has to look after various functions of management and discharge them effectively.

## **18. Entrepreneurs make Significant Differences**

The differences made by the entrepreneurs are significant. They have their own style of dealing with various problems, set backs and uncertainties. They tend to change the existing state of affairs and get the work done without bothering about obstructions and barrers.

## **19. Ability to Spot and Exploit Opportunities**

A story is told of a Jeweller who many years ago sent two of his marketing graduates to a remote village to see if they could come up with new product ideas for underdeveloped jewellery market. The first one after exploring the market said, “There is no business here, the residents of the village don’t wear jewellery of any type!” The second one was enthusiastic about the prospects and he said, “This is a great opportunity; the people here haven’t discovered Jewellery yet.”

This is how entrepreneurs spot the opportunities which others miss. Mc Grath states that the entrepreneurs are comfortable with ambiguity and they can bring clarity by piecing together previous unrelated messages and signals.

The entrepreneurs craft or carve out opportunities for themselves. Their perceptions differ from non-entrepreneurs. There are very few persons who are inventors and entrepreneurs at the same time. Such persons have an edge over those who are only inventors or entrepreneurs.

## **20. Courage to Face Adversities**

Entrepreneurs face the adversities boldly and bravely. They refuse to be beaten and become tougher during adverse situations. They have faith in themselves and attempt to solve the problems even under pressure. Every unpredictable situation is a challenge before them which they overcome and survive through.

## **21. Leadership – An essential trait of the entrepreneur**

Leadership is the process of influencing and supporting others to work enthusiastically towards achieving objectives. It is a critical factor that not only helps an entrepreneur to identify his goals but also motivates and assists him in achieving the stated goals. Without leadership, an organisation would be only a confusion of people and machines, just as an orchestra without a conductor would be only musicians and instruments. Leadership is one of the primary traits of an entrepreneur by which he can influence others to voluntarily seek defined objectives. Leadership, thus, is the catalyst that transforms potential into reality, problems into opportunities, heading towards the achievement of objectives. This role is often seen dramatically when a small scale unit transforms itself into medium-scale and finally it turns into a giant organization. Leadership is equally important in all sizes of organization – be it small, medium or large. Warren Bennis, the leadership guru, says that effective leadership can't exist without the full inclusion, initiatives, and the co-operation of employees. Since a small industry is as labour-intensive industry, the entrepreneur must have leadership qualities to influence his workers or employees.

**Traits of Leadership :-** The path to leadership that one takes differs from individual to individual.

**However, there are a few key traits we can focus on :**

- High level of personal drive
- The desire to lead
- Personal integrity
- Self-confidence
- Cognitive (Analytical) ability
- Business Knowledge
- Charisma
- Creativity
- Personal Warmth

The traits between leaders and non-leaders may differ at the physical level, intellectual level or personality features could be different as well.

## 1.6 MANAGER VERSUS LEADER :

Warren Bennis point out the characteristics of managers versus leader in the 21<sup>st</sup> century like this :

Manager Characteristics	Leader Characteristics
Administers	Innovates
A copy	An originally Develops
Maintains	Focuses on people Inspires trust
Focus on systems and structure	Long-range perspective
Relies on Control	Asks what and why
Short-range view	Eye on the horizon
Eye on the bottom line	Originates
Imitates	Challenges the status quo
Accepts the status quo	Own person
Classic good soldier	Does the right thing
Does things right	

Although a manager has different features than a leader but in small business the entrepreneur has to play the role of both. By creating an environment that encourages personal interaction, the leader and entrepreneur of a small firm can get the best from her/his employees and also offer a strong inducement to prospective employees. Several decades ago, managers were hard-nosed autocrats, giving orders and showing little concern for those who worked under them. Over the years, this style of leadership has given way to a gentler and more effective variety that emphasis as respect for all members of organisation and shows an appreciation for their potential as well. Manager leader entrepreneur frequently seeks some degree of employee participation in decisions that affect personnel and work process. This leadership approach taken upto a level can also be termed as empowerment. By using empowerment, managers go beyond solicitation of employees' opinion and ideas by increasing their authority to act on their own and to make decisions about the process they are involved with.

## 1.7 FUNCTIONS OF AN ENTREPRENEUR

An entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

- 1. Idea Generation :** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.

2. **Determination of Business Objectives :** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.
3. **Raising of Funds :** All the activities of the business depend upon the finance and hence fund raising is an important function of an entrepreneur. An entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.
4. **Procurement of Machines and Materials :** Another important function of an entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries, he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc. before procuring machineries.
5. **Market Research :** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
6. **Determining form of Enterprise :** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are also proprietorship, partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.
7. **Recruitment of Manpower :** To carry out this function, an entrepreneur has to perform the following activities.
  - a. Estimate man power requirement for short term and long term
  - b. Laying down the selection procedure.
  - c. Designing scheme of compensation.
  - d. Laying down the service rules.
  - e. Designing mechanism for training and development.
8. **Implementation of the Project :** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be

accomplished by him in accordance with the implementation schedule to avoid cost and time over run. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the entrepreneur. All the above functions of the entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

## 1.8 TYPES OF ENTREPRENEUR

Today various types of entrepreneur are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

### Clearance Danhof's Classifications

Danhof classifies Entrepreneur into four types.

1. **Innovative Entrepreneur:** This category of entrepreneur is characterized by smell of innovativeness. This type of entrepreneur sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations. Such entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such entrepreneur are very much helpful for their country because they bring about a transformation in life style.
2. **Adoptive or Imitative Entrepreneur :** Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, he may just adopt the technology and methods innovated by others. Such types of entrepreneur are particularly suitable for under developed countries for imitating the new combination of production already available in developed countries.
3. **Fabian Entrepreneur :** Fabian entrepreneurs are characterized by great caution and skepticism, in experimenting any change in their enterprise. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprises.
4. **Drone Entrepreneur :** Such entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

### Arthur H Cole Classification

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur.

**Empirical :** He is an entrepreneur who hardly introduces anything revolutionary and follows the principle of rule of thumb.

***Rational*** : The rational entrepreneur is well informed about the general economic conditions and introduces changes, which look more revolutionary.

***Cognitive*** : Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

### **Classification Based on the Scale of Enterprise**

***Small Scale*** : These entrepreneurs do not possess the necessary talents and resources to initiate large scale production and to introduce revolutionary technological change.

***Large scale*** : They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

### **Other Classification**

Following are some more types of entrepreneurs listed by behavior scientists.

***Solo Operators*** : These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

***Active Partners*** : Such entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simple 'Partners'.

***Inventors*** : Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

***Challengers*** : According to such entrepreneurs, if there is no challenge in life, there is no charm in life. Such entrepreneurs plunge into industry/business because of the challenge it presents. When one challenge seems to be met, they begin to look for new challenges. They convert odds and adversities into opportunities and make profit.

***Buyers*** : These are the entrepreneurs who do not like to face the hassles of building infrastructure and other facilities. They simply purchase the existing one and by using their experience and expertise try to run the enterprise successfully.

***Life Timers*** : Such entrepreneurs take business as an integral part of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

***Industrial Entrepreneurs*** : Such entrepreneurs engage in manufacturing and selling products.

***Service Entrepreneurs*** : Such entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc., where entrepreneurs provide service to people.

***Business Entrepreneurs*** : They are also called as trading entrepreneurs which buy and sell goods.

**Agricultural Entrepreneurs :** They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

**Corporate Entrepreneurs :** Corporate entrepreneurs undertake their business activities under legally registered company or trust.

**Rural Entrepreneurs :** Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs. According to Kkhadi and Village Industry Commission (KVIC) village or rural industry means any industry located in rural areas, population of which do not exceed 10,000, which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

**Women Entrepreneurs :** According to Government of India an women entrepreneur is defined as an enterprise owned and controlled by a woman and having minimum financial interest upto 51% of the capital and giving at least 51% employment to women.

### **1.9 RELATIONSHIP BETWEEN ENTREPRENEURS AND ENTREPRENEURSHIP**

<b>Entrepreneurs</b>	<b>Entrepreneurship</b>
<b>Producer</b>	<b>Production</b>
<b>Person</b>	<b>Process</b>
<b>Organiser</b>	<b>Organization</b>
<b>Innovator</b>	<b>Innovation</b>
<b>Risk bearer</b>	<b>Risk-bearing</b>
<b>Motivator</b>	<b>Motivation</b>
<b>Creator</b>	<b>Creation</b>
<b>Leader</b>	<b>Leadership</b>
<b>Imitator</b>	<b>Imitation</b>
<b>Visualiser</b>	<b>Vision</b>
<b>Planner</b>	<b>Planning</b>
<b>Investor</b>	<b>Investment</b>

The term entrepreneur is often used interchangeably with entrepreneurship, yet they are conceptually different. The relationship between the two is just like the two sides of the same coin. Thus, entrepreneurship is concerned with the performance and coordination of the entrepreneurial functions.

### **1.10 ENTREPRENEURIAL CULTURE**

The famous study on culture's consequences by Greet Hofsted has long proved that there culture-dependent differences in thinking and acting, and at times this cultural differentiation may prove the crucial element in fostering entrepreneurship. Culture both reflects the environment – physical and social – and in turn shapes it. It is important, therefore to understand the relationship between culture and entrepreneurship. The cultural moulding of one's perception, memory and attitudes indicates the massive impact of different designs for living upon the individual. A convenient shorthand way of referring to the training in the life-ways of a society, which the new member acquires through social interaction, is to speak of the effect of culture upon the individual. But in so speaking, we are merely using a convenient abstraction to point to the myriad ways in



which various people (who themselves learn the ways of the group from others) train the new individual in the approved ways. There is no single thing called 'culture' which influences a person. The relationship between culture and the individual is intertwined. Culture influences a person in a massive and pervasive way and this makes for the stability of a society and the continuity of its culture; the person also influences his culture and thus makes social change possible. The culture of a society consists, in part, of a particular set of arrangements for solving the problems of the members of the society. Some of these problems are special ones peculiar to the members of a particular society. Others are universal problems common to all human beings – such as meeting biological needs of the members, training the young caring for the sick. There are, of course, many different possible arrangements for solving those problems. From among these possible arrangements, one society adopts one set; a second society, a different set. This is another way of saying that no two cultures are identical.

The particular set of cultural arrangements adopted by a society is influenced by the physical environmental factor, as well as man's attitude and desire to improve his habitat. A society's culture, in other words, is not entirely determined by the 'given' physical environment. Man is not a passive victim of his physical environment. Within limits, he can act on it and transform it to suit his ends.

The historically important things with regard to natural resources is man's attitude towards them. It was not the availability of iron that created the Iron Age in Britain, nor the presence of coal that ushered in the Industrial Revolution, but the initiative of certain men at particular moments in time in finding a use for these mineral riches of the earth. The modifications or changes that have taken place in mechanical contrivances follow and tangibly employ prior modifications and changes in the purposes of human tool makers and tool users. The conversion of an agricultural parish in England into an industrialized community, the adoption of a new tool or the incorporation of a new technique of production into a small local cultural system has occurred early or late in time, here or there in space, as dictated by human will. Human geography demands as much knowledge of human beings as of geography.

The culture of a given society is also influenced by contacts with other cultural groups. Just as there is congruence between the 'physical surround' and culture, so is there congruence between the 'social surround' neighboring cultures and the culture of any given society. The borrowings of one society from the culture of another are not, however, blind and random scavenging of odd bits and pieces. A society borrows only those cultural ways that are seen by its members as helpful in solving the problems they face; that are seen, in other words, as a means of reaching their goals. However, the impact of social surround is a slow and complex process that is determined, among other things, by strength of the cultures, the value system and the attitude of people towards change. Education plays an important role in determining attitudes. Perhaps, this is the reason why providing education for all is a central pillar of the Millennium Development Goals stipulated by the United Nations. The relationship between quality education and economic growth is now a proven fact. A few cases provided hereafter may be relevant at this stage. The Chotanagpur region

of the Jharkhand state, which was earlier the southern part of the erstwhile Bihar state was one of the first regions to have acquired industrial status in independent India. The mineral-rich region had attracted the attention of our first Prime Minister Pt. Jawaharlal Nehru and a number of large industries came up in the region. Along with large public/private sector undertakings like HEC, SAIL, IISCO, HSCL, FCL, PDIL, TISCO, the central as well as state governments promoted growth of small scale industries and entrepreneurs were encouraged to set up units. With the nationalization of coal mines in the early 1970s this process gained further impetus. Thus, four major industrial area development authorities were created around the four industrial cities of Ranchi, Jamshedpur, Bokaro and Dhanbad. These were Ranchi Industrial Area Development Authority, Adityapur Industrial Area Development Authority, Bokaro Industrial Area Development Authority and New Kandra Industrial Estate, respectively. The objectives of these area development authorities were manifold. The state government wanted to enhance the pace of industrialization, exploit the natural resources of the region judiciously and catalyze economic growth and regional development. Many small scale units were set up on the region. Some were ancillaries to the existing large industries and some were set up to use the natural resources, particularly coal and other minerals available as raw material. This period saw rapid industrial activity in the region. It is to be remembered that today's highly developed regions like Gurgaon and NOIDA were not even planned then.

In the 1980, the Government of Uttar Pradesh (UP) decided to develop the industrially backward eastern region, and a number of strategic initiatives like incentives to set up units in zero industrial areas were announced. Land, finance, etc. were made available and industrial estates around industrially backward districts like Varanasi and Jaunpur were developed. Thus, Ramnagar Industrial Estate in Varanasi District and Satharia Industrial Development Authority in Jaunpur were created. Many units came up. It was much later that NOIDA started coming up, after the government of UP decided to use the proximity of the region to Delhi as a strategic advantage. The Haryana Government's plan of developing Gurgaon came even later. However, as things stand today, the industrial area development authorities of Jharkhand and industrial estates of eastern UP are in shambles, while Gurgaon has become a leading industrial hub of the country, overtaking even NOIDA. A systematic observation of the industrial development process in and around the regions mentioned above will suggest that for entrepreneurship to flourish mere government support in terms of incentives is not enough. Nor, also, is the abundance of natural resources in the region. There is an entrepreneurial culture that is needed which includes many more things. It was this that was missing in eastern UP and Jharkhand.

Why the attempts to industrialize Jharkhand and eastern UP failed and why NOIDA and Gurgaon grew has to be understood. The difference lies in the cultures of these regions. While Jharkhand and eastern UP represent stifling cultures, NOIDA and Gurgaon represent facilitative cultures.

In stifling cultures, entrepreneurs set units to misuse the finance and other incentives that are offered, the political establishment is exploitative, the support system is rudimentary and the social

system is indifferent. Thus, all the stakeholders lack commitment. And without commitment the result is what we saw, efforts and intentions do not yield results.

Attempts have been made by researchers to find out the basic elements of the entrepreneurial culture. While opinions vary and views are myriad, there is a wide agreement on the fact that entrepreneurship flourishes in some societies much more than in others. In India, for instance, Sindhi, Marwari, Gujarati and Punjabi cultures have thrown up many more successful entrepreneurs than others. This, however, is not to rule out the growth of entrepreneurship in other cultures. Rather, it is to identify the elements of successful entrepreneurial cultures and inculcate them in other cultures. But this is easier said than done.

There is a need to study and understand the entrepreneurial culture, identify the elements of cultures and inculcate them in other cultures.

### **1.11 DEVELOPING ENTREPRENEURIAL CULTURE**

India can make rapid strides if entrepreneurship gets due importance in national economic policies. The growth of Japan, South Korea, Singapore and other leading Asian economies can largely be attributed to entrepreneurship. The point to be noted here is that a culture for facilitating entrepreneurship is to be fostered. How to do this is perhaps to be learned from those who have realized it. Culture, like personality, has both content and pattern. Just as mere testing of the separate traits of an individual does not describe his personality, so the mere listing of the separate institutionalized ways of a society does not describe its culture. Two cultures, just as two personalities, may contain highly similar elements and yet be extremely unlike one another in pattern. It is this pattern, the arrangement of elements, that is critical. Just as in diamond and coal, the basic element carbon is same but the arrangement of molecules does the trick.

Developing entrepreneurship is thus a difficult task given the fact that you need a facilitative culture. Industries fail to flourish in Jharkhand, Bihar and eastern UP despite government efforts. The entire set of social, psychological, political, legal and economic environment needs to be taken into account. Delineating areas, outlining policies and announcing incentives may not be enough as has been proved in the cases mentioned above. A culture needs to be created. There is need to learn from the experiences and experiments of other cultures.

In India, the problem is diversity. There is so much diversity that a one-size-fits-all intervention will not work. Down south, the knowledge-based industry and its servicing has thrown up many entrepreneurs. Chennai and Hyderabad have seen rapid growth. East on the other hand is sluggish; rather the growth in Bihar, Jharkhand and eastern UP is negative, West Bengal being no better. Jharkhand is a classic case to prove how absence of entrepreneurial culture stifles growth. The state has abundance of natural resources, and industrial background running back to late sixties and availability of finances, yet it is ranked amongst the worst states in the country. In fact, the Honourable High Court of the state has been constrained to observe time and again that Jharkhand is going the Bihar way. These remarks made by a highly responsible agency of the state sum up the quality of governance of the state. This quality, incidentally, is a crucial determinant of an

entrepreneurial culture because other determinants like infrastructure and law and order are dependent on it. Another important aspect is the social-cultural milieu. But more than their presence it is their interaction that is critical.

What makes an economy tick ? This, perhaps, is the most relevant economic question for us in present times. Particularly, because many in India see this country emerging as an economic superpower in the next few decades. The popular one word answer to this vital question should be entrepreneurship. Both the theory and evidence suggest that entrepreneurial activities play a pivotal role in economic growth, small and medium enterprises being the crucial determinants. It is precisely because of this that the Government of India as well as different states are so keen to encourage entrepreneurship. In fact, the various state governments are boasting about their open arm policy towards entrepreneurs. Finances are available, policy measures are initiated and technical support is being extended. Despite these, however, growth of entrepreneurship is not satisfactory. But why does the entrepreneurship that steered growth in the West, Association of South East Asian Nations (ASEAN) countries and Japan fail to click in India. Small and medium enterprises have not shown the competitiveness and the character that boosts the economic development. The reason in one simple word is culture – entrepreneurial culture. This has to be systematically developed.

The Jharkhand example sums this up very well. This new state has the potential to be a leading state of the country. But it is a laggard. The same can be said of Bihar and eastern UP. To develop entrepreneurial culture, policy initiatives have to take a culture-specific view. What works in one region may not necessarily work in another region. A holistic approach is required for developing an entrepreneurial culture, where the society at large is involved in entrepreneurial development. It is the social environment that ignites young minds towards achievement orientation.

## **1.12 CONCEPT OF ENTREPRENEURSHIP**

Entrepreneurship can be defined as the propensity of mind to take calculated risks with confidence to achieve a pre-determined business or industrial objectives. That points out the risk taking ability coupled with decision making.

The word ‘entrepreneurship’ typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16<sup>th</sup> century, the term was used to denote army leaders. In the 18<sup>th</sup> century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognized widely all over the world like in USA, Germany, Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, in the west, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in developing countries demolishes the

contention that entrepreneur is a rare animal and an elusive character. In India the definition of an entrepreneur being the one who undertakes to organize, own and run a business has been accepted in a National Seminar on entrepreneurship organized in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.

Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyse the characteristics of an entrepreneur in terms of caste, family, social status etc. Psychologists analyse their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking, decision making, creativity, leadership etc. The economists analyze them on the basis of occupational background, access to capital, business and technical experiences.

### **1.13 DEFINITIONS OF ENTREPRENEURSHIP**

McClelland identifies two characteristics of entrepreneurship. Firstly, doing things in a new and better way (Schumpetrian's innovator). Secondly, decision making under uncertainty (Cantillon's entrepreneur). McClelland emphasized that entrepreneurial manager should have a high need for influencing other (need for power), a low need to establish emotional relationships (low need for affiliation) and a high capacity to discipline one's own self (inhibition). In other words, entrepreneurship means the function of creating something new, organizing and co-ordinating and undertaking risk and handling economic uncertainty.

"Entrepreneurship is meant the function of seeing investment and production opportunity, organizing an enterprise to undertake a new production process, rising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise".

- Higgins

"Entrepreneurship is essentially a creative activity or it is an innovation function. The process of innovation may be in the form of

- (a) Introduction of a new product
- (b) Use of a new method of production
- (c) Opening of a new market
- (d) The conquest of new source of supplying raw material
- (e) A new form of organisation"

- Joseph A. Schumpeter

"Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice".

- Peter F. Drucker

“Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize a profit-oriented business unit for the production or distribution of economic goods and services”.  
- A. H. Cole

“Entrepreneurship is that form of social decision making which is performed by economic innovators”.  
- Robert K. Lamb

“Entrepreneurship connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition, i.e. a capacity of seeing things in a way which afterwards proves to be true”.

- V.R. Gaikwad

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

### **1.14 IMPORTANCE OF ENTREPRENEURSHIP**

Entrepreneurship being an intangible factor is the moving force and development is the consequence. It has an important role in the context of a developing nation like India which is confronted with major socio-economic problems. Entrepreneurship can play an important role not only in the industrial sector of a country but in the farm and service sectors also.

India is being attacked by baffling problems of over population, unemployment, under-employment, poverty and the like. entrepreneurship is consistently equated with the establishment and management of small business enterprises and setting up these units is the solution to these baffling problems.

Concentration of economic power, regional imbalances, exploitation by monopolists, and many other giant problems find their solutions in the development of small scale industry which is another name of entrepreneurship in the developing countries. Mahatma Gandhi also asserted the same. Entrepreneurship has not grown much in India but it is gaining importance fast. The factors which retard the success of Entrepreneurship in India are inadequate infrastructural facilities shortage of capital, technical knowledge and transport, absence of cheap and good quality raw material and shortage of power, etc. The government has been taking significant steps to encourage entrepreneurship as entrepreneurship is the only solution to various problems of developing countries. Entrepreneurship caught strong waves during the last three decades and became a worldwide movement spreading across countries, regardless of their level of development. Even in Europe and United states, revival of small business has been seen for more than a decade. Constant change and innovations are simply a necessity of entrepreneurship and is becoming essential to survive in a global economy. An American magazine. “The Economist’ (1999) recently put it, “Innovation has become the industrial religion of the late 20<sup>th</sup> Century”. It is being increasingly realized that today’s managers and businessmen need not only managerial skills but entrepreneurial skills as well. Entrepreneurship needs to be demystified and transformed into a skill by teaching and practicing. Skill of entrepreneurship knows how to turn an ordinary corporation, managed in a

routine manner, into an entrepreneurial organisation. People within the organisation can be trained to:

- (i) detect the opportunities;
- (ii) perceive the opportunities and rewarded;
- (iii) to lessen the consequences of failing;

Entrepreneurship plays a premium mobile role in promoting development of an economy. Hence, it is said that an economy is the effect for which entrepreneurship is the cause. Various levels of economic development across the countries and even within the country are attributed to their differences in entrepreneurship development.

### **1.15 FEATURES OF ENTREPRENEURSHIP**

Entrepreneurship is the tendency of a person to organize the business of his own and to run it profitably, using various traits like leadership, decision making, innovation, managerial caliber etc. Entrepreneurship is a set of activities performed by an entrepreneur. In a way, entrepreneur precedes entrepreneurship. The main features of entrepreneurship are as follows:

**(i) Economic Activity :** Although classical economists like Adam Smith and Richard Cantillon and many others didn't recognize entrepreneurship as an economic activity but since last few decades entrepreneurship is catching up and is primarily becoming an economic function because it involves creation and operation of an enterprise.

Cantillon also pointed out that entrepreneurship involves conscious decision making about resource allocations. It also implies seeking the best opportunities for using resources for their highest commercial yields. Adam Smith viewed that there was no difference between an entrepreneur and an industrialist. He agreed that economic change could be brought through entrepreneurs.

Entrepreneurship is a continuous economic process which recognizes the need to change and entrepreneur is a key person to initiate any change.

**(ii) Innovative Activity :** Innovation is the process of doing new things. Drucker elaborates: "Innovation..... is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth." Entrepreneurship is innovation where new products, services, ideas and information is produced, new efficient production techniques are introduced by the firms, new market opportunities are identified and better ways of meeting existing demands are looked into. Whenever a new idea occurs, entrepreneurial efforts are essential to convert the idea into practical application. According to Schumpeter, innovation may occur in any of the following ways :

- (a) The introduction of a new good with which the customer is not yet familiar.
- (b) The introduction of a new method of production which is not tested by experience in the branch of manufacture concerned;

- (c) The opening of a new market the customers are not yet familiar with the product and the market for that innovative product has not previously been entered;
- (d) The conquest of new source of supply of raw-material irrespective of the fact whether that source already exists or it has been created.
- (e) The creation of a new organization of an industry a new innovation may create the monopoly for that product or break the monopoly of similar existing product.

**iii. A function of High Achievement.** People differ not only in their ability to do but also in their will to do, or motivation. The motivation, in turn depends on the strength of their motives sometimes defined as needs, wants, drives or impulses within the individuals. McClelland identified two features of entrepreneurship (a) doing things in a different and better way (b) decision making under uncertainty. He found that looking at the history of industrial development, money of the pioneers who built up industrial empires are strongly motivated by need for power and achievement. Thus, people having high need for achievement and power are more likely to succeed as entrepreneurs and this is a very critical factor that leads one towards entrepreneurship. Researches also show that stable personality characteristic like motive are laid down in childhood.

**iv. Creative and Purposeful Activity.** Creativity is “the ability to bring something new into existence”. The definition emphasizes on “ability” and not the “activity” of bringing something new into existence. A person may conceive of something new and also visualize its usefulness but unless he takes necessary action to convert it into reality, his ideas will not be termed as creative. Innovation is the process of doing new things. Innovation, therefore, is the transformation of creative ideas into useful applications but creativity is a prerequisite to innovation.

Entrepreneurship is virtually a creative and a purposeful activity. The entrepreneur passes through the five stages during the process of entrepreneurship viz. idea germination, preparation, incubation, illumination and verification. Earning profits is never the sole objective but to introduce something new and creative is the purpose of entrepreneurship. The benefits of his creativity are enjoyed by people at large, e.g. Internet benefits are being enjoyed by more than 50 million people world over.

**v. Entrepreneurship : An Organising function.** J.B. Say describes entrepreneurship as an organizing function whereby the entrepreneur brings together various factors of production, ensures the continuing management and renders risk-bearing functions as well. According to J.B. Say, an entrepreneur is one who combines the land of one, the labour of another, and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land, wages to labourers and what remains is his profit. Thus, J. B. Say clearly distinguishes between the role of a capitalist as a financier and the entrepreneur as an organizer. Marshall also advocated the significance of organization among the services of special class of business undertakes.



**vi. Entrepreneurship : A function of risk-bearing.** Richrd Cantillon, an Irishman living in France is credited with giving the concept of entrepreneurship. Cantillon described in his book published in 1755, an entrepreneur as a person who buys things at a certain price and sells them at an uncertain price. Thus, he makes decisions about obtaining and using resources while consequently assuming the risk of enterprise. Thus, Cantillon conceived of an entrepreneur as a bearer of non-insurable risk. According to him, risk-bearing forms an unique constitutive function of entrepreneurship.

### **1.16 GROWTH OF ENTREPRENEURSHIP IN PRE-INDEPENDENCE PERIOD**

Entrepreneurial growth in India is as old as Rigveda but there was no manufacturing as such before 1850. This manufacturing entrepreneurship was too confined to cottage & small scale industry. But it could not grow further due to various reasons such as lack of political unity, capital, network of custom barriers, existence of multiple systems of currency.

Emergence of entrepreneurial class is as old as our ancient history itself dating back to the pre-vedic period when the Harappan culture flourished in India. However, history of entrepreneurship and emergence of entrepreneurial class in India may be viewed under the following periods :

1. Period 1 : Entrepreneurship in ancient period
2. Period II : Entrepreneurship in pre-independence era i.e. before 1850.
3. Period III : Entrepreneurship between 1850-1947
4. Period IV : Entrepreneurship after 1947 & onwards i.e. post independence period.

**1. Period I : Entrepreneurship in Ancient Period :** As per the ancient literature, the ancient Indians took up a variety of commercial vocations akin to present day entrepreneurial activities. The arrival of Aryans opened the first phase of entrepreneurship, with their innovative new crafts and occupations, evolving division of labour for the new handicrafts, breeding of cattle, & cultivating land which were nearly non-existing before them. The ancient literature like Manusmriti gives a more clear picture about the entrepreneurial class of people during pre-vedic period. According to him, vaisyas were the specialized class of people carrying entrepreneurial activities in agriculture, industry & banking sector. During the Gupta & Post-Gupta period, agriculture, crafts and handicrafts comprised the basic sources of occupation for the people.

**2. Period II : Entrepreneurship in Pre-independence Era before 1850 AD :** During the pre-independence period, agriculture was the main occupation of the people of India. Besides agriculture, the bania, Parsis, Cherriars & Gujaratis etc., specialized in the manufacturing of handicrafts, metal works, stone carving & jewellery designing etc. had dominated the industrial entrepreneurship sector in rural areas. These communities actually laid the foundation of entrepreneurship by carrying out trade & commerce activities initially & later by establishing manufacturing centers.

British colonialism in India dealt a severe blow to the Indian entrepreneurship & industrial revolution in Great Britain reduced India to the status of material supplier for consumer market for the finished products manufactured in Britain.

Due to lack of support from the British Government and its discriminatory policies towards Indian made products, the industrial entrepreneurship suffered a great deal.

**3. Period III : Entrepreneurship during 1850-1947 :** The mid nineteenth century opened up path for rapid industrialization with the introduction of railways in 1853, development of other infrastructural facilities like roads, ports etc. The eastern part of the country witnessed entrepreneurship mainly due to Europeans who engaged in export-oriented industries, like jute, textiles, tea, coal etc. whereas in the western part, entrepreneurship was mostly among the Indians. It is observed that during the last decades of the 18<sup>th</sup> century, the Parsis along with Marwaris & Gujaratis trading castes, took to entrepreneurial behaviour.

The adoption of the concept of swadeshi & boycott in 1905 to counter the discriminatory policies of the British Government encouraged the Indians to plunge into entrepreneurship. Jamshedji Tata established his first iron & steel industry with the help of 'swadeshi contribution'. Due to the swadeshi movement which emphasized on manufacturing & using indigenous goods by the Indians, indigenous entrepreneurship developed in many types of activities such as textiles, soap, matches, oil, tanneries, potteries, banking, insurance etc.

As such, indigenous entrepreneurship grew at a rapid pace with emergence of entrepreneur classes such as Parsis, Marwaris & Gujaratis in the country on the eve of independence of India.

**4. Period IV : Entrepreneurship in 1947 & onwards – Post-Independence period :** In the post-independence period, the Government identified the need for rapid industrialization with the establishment of heavy & basic industries. The post independence period witnessed the emergence of Marwaris as big investors and industrialists. Before independence, where the Marwaris controlled only 6 companies, after independence, they had 618 directorships which rose to 1/4<sup>th</sup> of the total in 1951. The Monopolies Inquiry Commission in 1964 has mentioned in its report that the Marwaris accounted for 10 large industrial houses out of a total of 37 showing the strength of the Marwaris in the growth of entrepreneurship during this period. The Marwaris community emerged as a giant entrepreneurial class in the post-independence period. The house of Birla, Singhanias, Bajaj & others have created their image in the industrial market in the field of industrial development in India.

## **1.17 THEORIES OF ENTREPRENEURSHIP**

Entrepreneurial history is left to be interdisciplinary in approach and, thus, it is difficult to label entrepreneurship as purely a theory of economics or sociology or psychology or an anthropology. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have been evolved from over a period of more than two centuries.

Theories of entrepreneurship can be broadly classified into four categories :

- |                               |                                |
|-------------------------------|--------------------------------|
| (i) The economist's view      | (ii) the sociologist's view    |
| (iii) The psychologist's view | (iv) The anthropologist's view |

### **Economic Theory**

Economics is the social science that deals most directly with contemporary economic reality. Economists have done little work on entrepreneurship and therefore, have tended to be in minority. Economists like Adam Smith and David Ricardo assigned no significance to entrepreneurial role in economic development. Richard Cantillon (1755) was the first person to recognize the role of entrepreneurs in economic theory. He stated that, "the farmer is an entrepreneur who promises to pay the land owner for his farm or land, a fixed sum of money without assurance for the profit he will derive from his enterprise".

He described an entrepreneur as a person bearing risk. He makes profit by buying goods at a known price and by selling at an increased higher price but there is always an element of uncertainty in market. Hence, entrepreneur is always at a risk of bearing losses if he would be unable to sell the goods at a higher price. Cantillon stressed on the economic function of entrepreneur over his social status or his personality. J.B. Say broadened the definition and role of an entrepreneur to include the concept of combining factors of production, also noting that the entrepreneur must have special personal qualities.

The economic theory of entrepreneurship centres around Joseph Schumpeter which is versatile and multi-disciplinary. J. Schumpeter (1934) added the concept of innovation to the theory of entrepreneurship. He visualized the entrepreneurs as the key figure in economic development because of his role in introducing innovations. For Schumpeter, the ability to identify new opportunities in the market is a central entrepreneurial activity which creates disequilibrium in the economy. He states that the entrepreneur is the bearer of the 'mechanism for change'. Changes can occur from inside and outside the economy. Joseph, in one of his books, attempts to develop a number of economic theories of interest, capital, credit, profit and the business cycle by relating them to the theory of entrepreneurship. He centres the whole new economic theory around the entrepreneur rather than just a theory of the entrepreneur emphasizing the vital role played by the entrepreneur in an economy.

### **ii. Sociological Theory**

Sociologists suggest that entrepreneurship can be conceptualized as a social movement and entrepreneurs exist not only in the economy but in other spheres of society as well. S. M. Lipset argues that cultural values deeply affect entrepreneurship and the level of economic development. Mark Granovetter points that family ties may create an obstacle for a businessman if he cares for his family too much; but the same strong family feelings can turn into an advantage once the businessman has emigrated – as long as the distant family members stay behind. He also discusses the role of trust in entrepreneurial ventures. According to him, in social groups and societies where

people are isolated from each other, it may be difficult to develop the kind of confidence that is absolutely necessary to start a firm or otherwise cooperate in economic matters. Thus, Mark Granovetter emphasizes the role played by society and family-members in growth of entrepreneurship.

According to **Cochran**, the entrepreneur represents society's model personality. His performance depends upon his own attitudes towards his occupation, the role expectations of sanctioning groups and the occupational requirement of the job. Society's values are the most important determinant of attitudes and role expectations.

**Everett. E. Hagen** in his book 'On The Theory of Social Change' (1962) argues that people who have grown up in certain minorities develop a much stronger psychological propensity for entrepreneurship than who have not. Hagen's theory may well contain a grain of truth but his approach is discredited by others. Hagen also concluded that entrepreneurs have emerged from certain communities and castes.

Thus, Hagen disregard the complicated institutional environment that surrounds the entrepreneur.

### **iii. Psychological Theory**

Psychological theory of entrepreneurship has a fairly high status among social scientists who study entrepreneurship because it is very difficult to single out one or several psychological traits as typical for the entrepreneurial personality. However, advocates of this theory assert that entrepreneurship is most likely to emerge when a society has sufficient psychological characteristics.

**Joseph Schumpeter states that the entrepreneur is mainly motivated and driven by three things :**

- (i) the dream and the will to found a private kingdom;
- (ii) the will to conquer;
- (iii) the joy of creating;

**J. Schumpeter's formulation can be translated as :**

- (i) the desire for power and independence;
- (ii) the will to succeed;
- (iv) the satisfaction of getting things done.

According to him, money is not what ultimately motivates the entrepreneur. 'Entrepreneurs', according to Schumpeter, 'are certainly not economic men in the theoretical sense'. Thus, he supports the psychological theory and not the economic theory. He asserts that what matters is the behaviour, and not the actor.

According to David McClelland's book *The Achieving Society* (1961), entrepreneurship has to do with an individual's so called need for achievement (referred to as n-Achievement). He identified three features of entrepreneurs that were related to their need for achievement : (1) desire to accept responsibility for solving problems, setting goals and reaching the goals; (2) a willingness to accept moderate risks; (3) a desire to know the outcomes of their decisions. It was widely believed that a high achievement motivation has a strong likelihood of predicting entrepreneurial behaviour. Individuals with high achievement motive tend to take keen interest in situations of high risk, desire for responsibility and a desire for a concrete measure of task performance.

#### **iv. Anthropological Theory**

Fredrik Barth made his first attempt to develop an anthropological theory of entrepreneurship. According to Barth, entrepreneurship has essentially to do with connecting two spheres in the society, between which there exists a difference in value. Something which is cheap in one sphere, may be expensive in another sphere. Barth, one of the leading anthropologists of the world, states that entrepreneurial behaviour means to connect two different spheres in the society, between which there is a huge discrepancy in value.

Each of the above theories is incomplete and none of them is right or wrong. Theories of entrepreneurship are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, achievement motivation, ability and ambition which largely determines whether an individual becomes an entrepreneur or not.

### **1.18 PROBLEMS IN GROWTH OF ENTREPRENEURSHIP**

Entrepreneurship is a skill, the resultant of a mix of many qualities, traits and competencies. Entrepreneurship must be a cluster of many entrepreneurial people devoted to their respective ventures. Entrepreneurship is nothing unless entrepreneurs give a creative response to the environment and undertake to establish their enterprise. But devoted, imaginative, hard-working creative and competent entrepreneurs are not enough to further the process of entrepreneurship. Entrepreneurship refers to a process of actions taken by entrepreneur in a specific environment. We can say that entrepreneurship is sum total of entrepreneur and his environment. We have studied both the aspects of entrepreneurship – and environment. Let us now study that what is obstructing the growth of entrepreneurship. Is it poor entrepreneurs or unhealthy environmental factors or both?

Undoubtedly, entrepreneurship growth in India is slow as compared to other countries. Women's entrepreneurship is still slower and rather negligible. As far as development of entrepreneurship is concerned, the factors responsible for its slow growth are :

- (i) Incompetence and poor management;
- (ii) Low level of commitment;
- (iii) Restriction imposed by custom and tradition;
- (iv) Involvement of high risk;

- (v) Socio-cultural rigidities;
- (vi) Lack of motivation;
- (vii) Lack of infrastructural facilities;
- (viii) Lack of communication network;
- (ix) Absence of entrepreneurial aptitude;
- (x) Low status of businessmen;
- (xi) Market imperfections;
- (xii) Legal formalities involved to set up a unit
- (xiii) Low quality products
- (xiv) Low package of salaries to employees

The reasons or the obstacles are many. An enthusiastic entrepreneur starts his venture with determination but generally ends up with a sick unit. Incompetence of entrepreneur and environmental factors, both are responsible for his failure. Financial institutions are liberally sanctioning loans but the permission to commence production is not given in time resulting into heavy interest and debt burden. Entrepreneurs have to wait for months to get power connection for their unit making this financial position still more grave and pathetic. Although the government has simplified the loan procedures to a great extent but realities are different from theory. The stimulation of entrepreneurship is a function of both internal and external variables. There is no dearth of men with the right blend of vision and practical sense to become successful entrepreneurs. But how to identify such persons without a mistake The magnitude of industrial sickness proves and self-explains the causes of poor growth of entrepreneurship. Everyone cannot become demonstration model like Shehnaz Hussain or Dhirubhai Ambani or like. The right type of climate has to be generated. Once it is existing, entrepreneurship becomes a way of life. A mischievous child cannot be disciplined in a day, similarly, entrepreneurship cannot grow overnight. Growth also depends upon level of development.

Robert L. Garner quotes, “Development is a state of mind. People have to develop themselves before they can change their physical environment and this is a slow process..... it involves changes in relations between classes and races. It requires improvement of governmental organizations and operations; the extension of social institutions, school, courts and health services. Habits of thoughts and conduct are the most stubborn obstacles to development’.”

Similar are problems in the growth of women entrepreneurship. Various problems obstruct the growth of women entrepreneurship.

To name a few, various social factors includes

(i) lack of education; (ii) dual role of women; (iii) lack of independence; (iv) family burden; (v) responsibility of rearing the children and their home work; (vi) unfavouring family background (vii) lack of cooperation from spouse and other family members.

Similarly, economic factors could be the (i) lack of mobility; (ii) problem of getting the loan sanctioned; (iii) exploitation; (iv) shortage of finance; (v) lack of technical know-how (vi) non-availability of power and raw-material; (vii) insufficient infrastructural facilities etc.

### 1.19 DIFFERENCE BETWEEN ENTREPRENEURSHIP AND INTRAPRENEUR

	Basis of difference	Entrepreneur	Intrapreneur
1.	Ownership	Entrepreneur is owner of the enterprise.	Intrapreneur is dependent on entrepreneur who performs the task of innovation.
2.	Status	An entrepreneur is independent in his operations.	The intrapreneur is dependent upon entrepreneur.
3.	Capital formation	Entrepreneur himself forms capital	Intrapreneur does not form capital
4.	Risk	Entrepreneur bears the risk involved in an enterprise	An intrapreneur does not fully bear the risk involved in an enterprise.
5.	Operation	An entrepreneur operates from outside	Intrapreneur operates from within the organisation.
6.	Guarantee of investment	Entrepreneur gives guarantee to the investors for their investment	Intrapreneur himself is a manager, so he manages from within. Question of guarantee does not arise.
7.	Management	Entrepreneur manages the enterprise from outside.	Intrapreneur is a professional manager.
8.	Professional qualification	Entrepreneur need not possess professional qualification	Intrapreneur must possess professional qualification.

### 1.20 TYPES OF ENTREPRENEURSHIP

There are various types of entrepreneurship which are as follows :-

#### (i) Small business entrepreneurship

Today, the overwhelming number of entrepreneur and startups in the United States are still small business. There are 5.7 million small business in the U.S. They make up 99.7% of all companies and employ 50% of all non-governmental workers.

Small businesses are grocery stores, hair dressers, consultants, travel agents, internet commerce store fronts, carpenters, plumbers, electricians, etc. They are any one who runs his/her own business. They hire local employees or family. Most are barely profitable. The definition of success is to feed the family and make a profit not to take over an industry or build a 100 mn business. As they can't provide the scale to attract venture capital they fund their business via friends/family or small business loans.

**(ii) Scalable startup entrepreneurship**

Unlike small business, scalable startups are what silicon valley entrepreneurs and their venture investors do. These entrepreneurs start a company knowing from day one that their vision could change the world. They attract investment from equally crazy financial investor – venture capitalists. They hire the best and the brightest. Their job is to search for a repeatable and scalable business model when they find it, their focus on scale requires even more venture capital to fuel rapid expansion. Scalable startups in innovation clusters make up a small percentage of entrepreneurs and startups but because of the outsize returns, attract almost all the risk capital.

**(iii) Large company entrepreneurship**

Large companies have finite life cycles. Most grow through sustaining innovation, offering new product that are variants around their core products, shares in customer tastes, new technologies, legislation, new competitors, etc. can create pressure for more disruptive innovation – requiring large companies to create entirely new products sold into new customers in new markets. Existing companies do this by either acquiring innovative companies or attempting to build a descriptive product inside. Ironically, large company size and culture make disruptive innovation extremely difficult to execute.

**(iv) Social entrepreneurship**

Social entrepreneurs are innovators who focus on creating products and services that solve social needs and problems. But unlike scalable startups their goal is to make the world a better place not to make market share or to create to wealth for the founders. They may be non-profit, for profit, or hybrid.

**1.21 ENTREPRENEURIAL TRAITS OR COMPETENCIES.**

There has been a controversy on what it takes to be a successful entrepreneur. Some people argue that entrepreneurs are born with the right personality attributes and others insist that any one can be taught to be an entrepreneurs. In view of above controversy in order to understand clearly what it takes to be a successful entrepreneurs research institutions and behavioural scientists through their research studies have tried to resolve the interiorly on what makes a successful entrepreneur. Following is a lot of major competencies as identified by the Entrepreneurship Development Institute of India (EDI) Ahmedabad.



**1. Initiative :-** The entrepreneur initiates a business activity i.e. he takes the first step to start an enterprise. He takes initiative that goes beyond enterprise establishment or the demand of the situation. For example, he does things before being asked or forced by the situation.

**2. Passion :-** The entrepreneur should possess passion for his enterprise. He therefore, develop more than a casual interest in the enterprise so that he could overcome various hurdles and obstacles coming on the way of starting an enterprise. Available evidence indicate that without passion or consuming interest, business will not succeed. Such a personal or emotional or consuming commitment to do some thing by giving full try is an example of 'passion'.

**3. Tenacity despite failure**

Because of the hurdles and obstacles that must be overcome, the entrepreneur must be persistent and must not give up easily. Many successful entrepreneurs succeeded only after they had failed several times. It has been said that successful entrepreneurs do not have failures. They have learning experiences.

**4. Self-confidence**

Entrepreneur is a strong believer in his strength and abilities. He believes that he possesses the ability to accomplish whatever he sets out to do and achieve. The confidence is not unfounded however. The entrepreneur who believes that "He can" becomes successful.

**5. Sheer grit and strong determination**

The life history of successful entrepreneurs reveals that they are characterized by self motivation and strong determination in their goal. They act out of choice. They are never victim of fate. The entrepreneur believes that the success or failure depends on his own actions. This quality is known as "internal locus of control". A person who believes that fate and other outside factors determine success has an external locus of control and is not likely to succeed as an entrepreneur.

**6. Creativity**

One of the reason that entrepreneurs are successful is that they have imagination and can envision alternative scenarios. They have the ability to recognize opportunities that other people do not see. Here again let us take the example of Henry Ford.

**7. Change Seeker**

To the most of people change is often frightening and is something to be avoided. But, successful entrepreneurs see change as normal and necessary. Therefore, they search for change, respond to it and exploit it as an opportunity. In fact, this exploitation of change is the basis of innovation. In economics, change is considered a prerequisite for improvement and development.

**8. High need for achievement**

Many studies have shown that the successful entrepreneurs have 'high need for achievement' than the general population. David. C. McClelland considers it the most crucial

element to become an entrepreneur. It is the high need for achievement which makes entrepreneurs act on their ideas. The achievement motive is converted into drive and initiative that results in accomplishment.

## **9. Team spirit**

Successful entrepreneurs build team and work with teammates. In simple words, team is a group of individuals who work in a face-to-face relationship to achieve a common goal. They share collective accountability for the outcome of the team's effort. Working in teams creates synergy and achieves success in its endeavours. While appreciating the role of team spirit in success. Henry Ford's view seems worth citing "Bringing people together is beginning, keeping people together is progress and working with people is success".

**10. Information Seeker.** A successful entrepreneur always keep his eyes and ear open and is receptive to new ideas which can help him in realizing his goals. He is ready to consult expert for getting their expert advise.

**11. Quality Consciousness.** Successful entrepreneur always keep his eyes and ear open and is receptive to new ideas which can help him in relishing his goals. He is ready to consult expert for getting their expert advise.

**12. Proper Planning.** Successful entrepreneurs develop or evolve future course of action keeping in mind the goals to be realized. They believe in developing relevant and realistic plans and ensure proper execution of the same in their pursuit of attaining their goals.

**13. Problem Solver.** Successful entrepreneurs take problem as a challenge and put in their best for finding out the most appropriate solution for the same. They will first of all understand the problem and then evolve appropriate strategy for overcoming the problem.

**14. Assertive.** An assertive person knows what to say, when to say, how to say and whom to say. He believes in his abilities and ensures that others fall in line with his thinking, aimed at promoting the interests of the organization.

**15. Effective Monitoring.** Top performers ensure that everything is carried out in their organizations as per their wishes. They ensure regular monitoring of the working so that the goals of the organization are achieved in best possible manner.

**16. Employees Welfare.** Future of the organisation depends on its employees. If the employees are dedicated, committed and loyal, the organization is bound to perform well. A successful entrepreneur tries to promote organization's interests through promotion of interests of the workers. He takes personal interest in solving problems confronting workers and generates the feeling that there is interdependence of the interests for workers and the management.

## **1.22 MEANING OF MOTIVATION**

Motivation is the inner urge of a person that ignites and sustains behaviour to satisfy need of himself as well as of the society. Motivation has been derived from the Latin word “Motive” which implies the inner state of mind that activates, provokes and directs our behaviour towards the goal.

### **1.23 DEFINITION OF MOTIVATION**

According to Mcfarland, “Motivation refers to the way in which urges, drives, desires, striving, aspirations or needs, direct or explain the behaviour of human beings”. Thus entrepreneurial motivation may be defined as the process that motivates an entrepreneur into action and induces him to follow the course of action till the goals are not achieved finally or till the establishment of an well-established enterprise. In a nut shell motivation includes motives, behaviours and goals.

“A motive is an inner state that energises, activates or moves and that directs behaviour towards goals”. – Bernard and Steiner

“Motivation is getting people to do. What you want them to do, because they want to do it”. – D.D. Eisenhower

“A willingness to expend energy to achieve a goal or reward. It is a force that activates dormant energies and sets in motion the action of the people. It is the function that kindles a burning passion for action among the human beings of an organization” – C.B. Memoria

“Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make a goal directed pattern towards restoring a state of equilibrium by satisfying the need”. – Vitales

### **1.24 NATURE OF MOTIVATION**

**Based on above definitions the following points of nature of motivation emerge :**

1. Motivation refers to the internal feelings of an individual or individual’s motives.
2. These emotions, feelings or desires of a person prompt him to work more.
3. Unsatisfied needs of an individual disturb his equilibrium, forcing an individual to resort to a goal directed approach.
4. Motivation activates and channelises dormant energies of an individual towards productive action.
5. Motivation is linked to satisfaction. Satisfaction is the feeling of contentment a person experiences out of need fulfillment.
6. An individual is motivated in totality and not in parts.

### **1.25 TYPES OF MOTIVATION**

In order to extract more out of his subordinates a manager will be required to motivate them for performing better. This can be done either by offering them reward for more work or by instilling fear among them in the form of punishment.

**Motivation can be of two types and these are :-**

**1. Positive Motivation.** Workers are tempted to put in their best for achieving the desired objectives. These temptations rewards or incentives can be in the shape of extra pay, promotion, recognition etc. Positive motivation will result in willing cooperation of workers for the attainment of organizational goal.

**2. Negative Motivation.** Negative motivation creates fear or deterrent amongst workers. Fear forces workers to behave in the way the owner wants them to behave. Workers are coerced to behave in a certain manner, failing which they are threatened with lay offs, demotions, pay cuts etc. Workers work not willingly but out of fear.

Out of the two positive motivation should be preferred as it leads to willing rather than forced cooperation of workers towards the realization of organizational goals.

## **1.26 IMPORTANCE OF MOTIVATION**

Motivation has become all the more important due to the following reasons.

**1. Improved Morale.** Motivation acts as morale booster for employees. Motivated workers are tempted to put in their best for the realization of organizational goals. High Morale will result in more interest in work and higher productivity. It will enable the organisation to produce more at lower costs. It will have overall positive impact on the interests of the various parties linked with the business.

**2. Lower labour turnover.** Motivated employees will never feel like leaving the organisation and as such the firm will be able to utilize the services of trained, committed and loyal workers for longer period of time. Organization will be saved from the botheration of making fresh recruitment, selection, training and placement of workers. Lower labour turnover will result in saving of time, effort and money of the organisation. Rate of absenteeism will be reduced and workers will try to promote organizational interest.

**3. Improved goodwill.** Motivated employees can help the organization in improving its good will or image. A reputed organization is in a position to attract best possible talent from the market. Existing employees won't leave the organization and outsiders will be taken to join.

**4. Cordial Industrial Relations.** A sound motivational system will promote job satisfaction amongst workers. Workers will start identifying their interests with the interests of organization due to positive motivation. The feeling of distrust, conflict or clash of interest will be removed amongst motivated workers. There won't be any strike or lockout in the organization and motivation will ensure cordial industrial relations.

**5. Quality Orientation.** A motivated employee is generally more quality oriented. Everyone from bottom to top or top to bottom takes extra care while performing the assigned work. It leads to overall improvement in the working and people start recognizing the organization as a quality conscious organization.

**6. Acceptability of Change.** An organisation is required to remain in touch with the changing scenario and at the same time take effective steps for making adjustments according to changes. Its survival and future depends upon its ability to cope up with the changes. Motivated employees rather than opposing changes welcome these. They help the owners in converting these changes into opportunities to be exploited in the best possible manner for the promotion of business interests.

## **1.27 THEORIES OF MOTIVATION**

Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulate drives within the individuals for the satisfaction of the need and reduction of tension. The efforts or actions initiated by the individual will yield results which will lead to satisfaction of need or removal of tension. Classical theories and scientific management thinkers were of the opinion that people were mainly interested in maximizing economic gains as they were primarily concerned with satisfying their basic needs of food, water, air, shelter etc. Thus they tried to link up performance and productivity with monetary rewards or incentives. F.W. Taylor, father of Scientific Management proposed Differential Piece Rate system for motivating workers to work at their level best. The traditional thinkers were mainly concerned with the monetary reward and were treating human beings as mere machines, which do not have any inner feelings or emotions. Under Hawthorne Experiments, it was proved that there was not direct relationship between productivity and economic rewards. Money is an essential condition but not a sufficient one for motivating people to work. Human beings are not machines and they have also social and psychological needs.

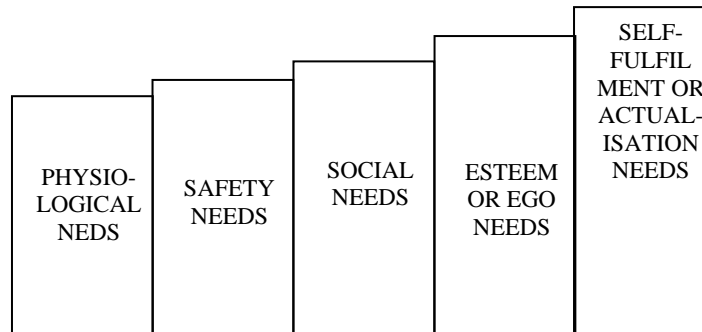
Various researchers are actively engaged in finding answer to one basic question i.e. What motivates people ? or what makes them work ? Various theories have been propounded by different experts to focus attention on this basic issue.

Some of the theories which are prominent and relatively more relevant to entrepreneurship are as under :-

### **I. MASLOW'S NEED HIERARCHY THEORY**

Maslow's theory is based on human needs. He developed a conceptual framework for understanding human motivation. He was of the opinion that every individual has a complex set of exceptionally strong needs and the behaviour of an individual at a particular moment of time is usually determined by his strongest need. He defined a person's effectiveness as a function of matching man's opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with the assumption that the behaviour, atleast in part, is directed towards the achievement or the satisfaction of needs. Maslow felt that the 'needs have a definite sequence of

domination. Second need does not dominate till first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied. Man is never fully satisfied, if one need is satisfied the other will arise and so on. Once a need or certain order of needs is satisfied, it ceases to be a motivating factor. Maslow stated that human beings have five basic levels of needs, which they tend to satisfy in a hierarchical manner. He proposed that human needs can be arranged in a particular order from the lower level needs to the highest level needs. This hierarchy of human needs can be shown in the following figure.



Maslow's Need Hierarchy

**These five needs can be discussed as follows :**

- (i) **Physiological Needs :** These needs are basic and are related to survival and maintenance of life. These needs comprise of food water, air, shelter, clothing and other necessities of life. The first priority of human beings is to acquire these basic necessities of life and then move to second level of needs.
- (ii) **Safety and Security Needs :** After satisfying physiological needs, human beings aim at satisfying safety and security needs. Human beings are not content with just satisfying present physiological needs, they want to make provision for the same for future also. They want job security, personal body security, security of source of income, provision for old age, insurance against risks etc. Entrepreneurs just like other human beings are guided by all these factors.
- (iii) **Social Needs :** Man is a social animal and wants to belong to a social group where his social and emotional needs for love, affection, warmth and friendship are satisfied. An entrepreneur too is interested in conversation, exchange of feelings and grievances with fellow entrepreneurs, his employees and others. He wants to belong to others and expects that others should belong to him i.e. the feeling of belongingness.
- (iv) **Esteem Needs :** These needs include self respect, self confidence, recognition, appreciation, prestige, power & control. These are also known as egoistic needs and affect prestige and status of individuals. Entrepreneurs derive status and respect through their ownership and control over their business.
- (v) **Self-actualization or Self fulfillment needs :** This is the ultimate goal and involves realizing one's potentialities for continued self development. After other needs are fulfilled a man has the desire for personal achievement. He wants to do something which is challenging and since this challenge gives him enough push and initiative to work it is beneficial to him and the society.

The sense of achievement gives him psychological satisfaction. An entrepreneur can achieve self actualization in being a successful entrepreneur.

Though the impulse to realize one's potential is natural and necessary, only a few usually the gifted ever do so. Maslow himself estimated that less than one percent of the people realize the need for self actualisation.

**Maslow states three reasons for it.**

- (i) People are invariably blind to their own potentialities.
- (ii) Social environment often stifles development towards self fulfilment.
- (iii) The strong negative influence is exercised by the safety needs. The growth process demands a constant willingness to take risks, make mistakes and to break old habits. All these result in breaking the safety barriers.

## **II. MCCLELLAND'S THREE NEED MODEL :**

According to David McClelland, "a person acquires three types of needs as a result of one's life experience. He tends to develop certain motivation drives as a result of his interaction with the environment in which he lives.

**These three needs are :**

**1. Need for achievement.** It is a drive to excel, advance and grow. This refers to one's desire to achieve something with own efforts. People with a high need for achievement derive satisfaction from achieving goals. These people are often wealthy and their wealth comes from their ability to achieve goals. High achievers want immediate feedback on their performance and they generally undertake tasks of moderate difficulty rather than those which are either very easy or very difficult.

These people prefer to work independently so that successful task performance can be linked to their own efforts rather than to someone else's. McClelland and his associates made specific suggestions for the development of achievement need and these are -

- (i) Give employees periodic feedback on performance. This will provide information that will enable them to modify or correct their performance.
- (ii) Provide good models of achievement. Employees who are successful should be made available for others to emulate.
- (iii) Arrange tasks so that employees can pursue moderate challenges and responsibilities. Avoid tasks that are either very difficult or very easy.
- (iv) As much as possible employees should be able to control their own destiny and imagination. They should be trained to think realistically and positively about how they will accomplish goals.

**2. Need for power.** A drive to influence others and situations. It refers to one's desire to influence and dominate others through use of authority. Achievement of goals is less important than

the means by which goals are achieved. Alfred Adler was leading advocate of power motive. He propounded the concept of inferiority complex and compensation. According to him the individual's life style is characterized by striving to compensate for the feeling of inferiority which are combined with innate drive for power. As such there arises need to manipulate others or there is drive for superiority over others McClelland and his associates have found that people with high power need have a great concern for exercising influence and control. Such type of people generally seek positions of leadership and are forceful, outspoken, hard headed and demanding.

**3. Need for affiliation :** A drive for friendly and close interpersonal relationships. It refers to one's desire to establish and maintain friendly relationship with others. People with affiliation need derive satisfaction from social and inter personal activities. Affiliation plays a very vital role in human habaviour. McClelland has suggested that people with high need for affiliation usually derive pleasure from being loved and tend to avoid pain of being rejected. These individuals are concerned with maintaining pleasant social relationship, enjoying a sense of intimacy and understanding and enjoy assisting or helping others in trouble.

People possess the above needs in varying degrees and these needs may be simultaneously acting on an individual. In case of entrepreneurs, need for achievement is more dominating.

McClelland is of the opinion that people with high need for achievement are characterized by the following :

- (i) They set moderate, realistic and attainable goals for them.
- (ii) They take calculated risks and look for challenging tasks.
- (iii) They prefer situations where in they can take personal responsibility for solving problems.
- (iv) They need concrete feedback on how well they are doing.
- (v) Their need for achievement exists not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

### **III. ALDERFER'S ERG THEORY :**

**Clayton Alderfer reformulated Maslow's need hierarchy theory. According to Alderfer, Maslow's five levels of needs can be regrouped under three heads namely Existence, Relatedness and Growth (ERG)**

**1. Existence Needs :** These existence needs combine the physiological and safety needs of Maslow. These existence needs can be satisfied by material or financial incentives and include survival needs, physical & psychological safety etc.

**2. Relatedness Needs :** These include Maslow's social and esteem needs which are derived from other people. These needs are satisfied by personal relations & social interactions.



**3. Growth Needs :** These include Maslow's self actualization needs. These needs will be satisfied only if an individual involves himself in activities of the organisation and is always on the lookout for new challenges and opportunities. Through creative efforts individual can realize his potential by making best use of the available opportunities.

For the proper development of entrepreneurship, Relatedness and Growth needs are more important. Alderfer theory assumes that different types of needs can operate simultaneously whereas Maslow's theory follows a rigid need hierarchical order.

Very little research exists on the ERG theory of motivation. Still there seems to be some support for the theory over the need priority model or the two factor theory of motivation. ERG theory seems to take some of the strong points of the earlier theories, but is less restricting and limiting. Besides disagreement over the exact number of categories of needs persist. Satisfying needs is an important part of motivating employees. If a manager finds that a subordinate's growth needs are blocked, for whatever reasons, he may attempt to redirect employees behaviour towards satisfying relatedness or growth needs.

### **1.28 MEANING OF WOMEN ENTREPRENEUR**

Women constitute around half of the total world population. So is in India also. They are, therefore, regarded as the better half of the society. In traditional societies, they were confined to the four walls of houses performing household activities. In modern societies, they have come out of the four walls to participate in all sorts of activities. The global evidences buttress that women have been performing exceedingly well in different spheres of activities like academics, politics, administration, social work and so on. Now, they have started plunging into industry also and running their enterprises successfully. Therefore, while discussing on entrepreneurial development, it seems fit to the context to study about the development of women entrepreneurs in the country. The present discussion therefore, aims at discussing the growth and problems of women entrepreneurs in India. Let us begin with understanding the concept of women entrepreneurs.

### **1.29 DEFINITION OF WOMEN ENTREPRENEUR**

"Women entrepreneur according to government of India is an entrepreneur who runs an enterprise owned and controlled by her and having minimum financial interest upto 51% of the capital and giving at least 51% employment to women".

Thus, women entrepreneur is one who initiates, organizes and operates a business enterprise. In developing countries like India, such innovators are found less in number when compared with other advanced countries.

### **1.30 FUNCTIONS OF WOMEN ENTREPRENEURS**

As an entrepreneur, a woman entrepreneur has also to perform all the functions involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis, determination of forms of business organisation competitive

of promotional formalities, raising funds, processing men, machines and materials and operation of business.

Frederick Harbison has enumerated the following five functions of a woman entrepreneur :

1. Introduction of innovations or imitation of innovations.
2. Exploration of the prospects of starting a new business enterprise.
3. Supervision and leadership.
4. Undertaking of risks and the handling of economic uncertainties involved in business.
5. Coordination, administration and control.

The fact remains that, like the definition of the term 'entrepreneur', different scholars have identified different sets of function performed by an entrepreneur whether man or woman. All these entrepreneurial functions can be classified broadly into three categories. 1. Risk-bearing, 2. Organisation and 3. Innovations.

### **1.31 GROWTH OF WOMEN ENTREPRENEURS**

Women in India constitute around half of the country's population. In the official proclamation, they are at par with men. But, in real life, the truth prevails otherwise. Our society is still male-dominated and women are not treated as equal partners both inside and outside four walls of the house. In fact, they are treated as abla, i.e. weak and dependent on men. As such, the Indian women enjoy a disadvantageous status in the society. Let some facts be given. The much low literacy rate (40%), low work participation rate (28%) and low urban population share (10%) of women as compared to 60%, 52% and 18% respectively of their male counterparts well confirm their disadvantageous position in the society. Our age old-cultural traditions and taboos arresting the women within four walls of their houses also make their conditions more disadvantageous. These factors combined by serve as non-conducive conditions for the emergence and development of women entrepreneurship is expectedly low in the country. This is well indicated by a dismally low level of women (5.2%) in total self-employed people in the country.

In India, women entry into business is a new phenomenon. Women entry into business, or say, entrepreneurship is traced out as an extension of their kitchen activities mainly to 3 Ps, viz, Pickles, Powder and Pappad. Women in India plunged into business for both pull and push factors. Pull factors imply the factors which encourage women to start an occupation or venture with an urge to do something independently. Push factors refer to those factors which compel women to take up their own business to tide over their economic difficulties and responsibilities. With growing awareness about business and spread of education among women over the period, women have started shifting from 3Ps to engross to 3 modern Es., viz, Engineering., Electronic and Energy. They have excelled in these activities. Women entrepreneurs manufacturing solar cookers in Gujarat, small foundries in Maharashtra and T.V. capacitors in Orissa have proved beyond doubt that given the opportunities, they can excel like their male counterparts. Smt. Sumati Morarji

(Shipping Corporation), Smt. Yamutai Kirloskar (Mahila Udyog Limited), Smt. Neena Malhotra (Exports) and Smt. Shahnaz Hussain (Beauty Clinic) are some exemplary names of successful and accomplished women entrepreneurs in our country.

According to a survey, Bengaluru seemed to be the nation's top incubator for women entrepreneurs, followed by Delhi, Chennai, Mumbai, Hyderabad, Pune and Ahmedabad. The major areas of their business are professional services, IT, Apparels, Travel, Media, Manufacturing etc. Statistics showed that most women entrepreneurs had small to medium sized enterprises and more than 70% had less than 5 employees working for them.

### **1.32 PROBLEMS OF WOMEN ENTREPRENEURS**

Women entrepreneurs encounter two sets of problems, viz, general problems of entrepreneurs and problems specific to women entrepreneurs. These are discussed as follows:

- 1. Stiff competition :** Women entrepreneurs do not have organizational set-up to pump in a lot of money for canvassing and advertisement. Thus, they have to face stiff competition for making their products with both organized sector and their male counterparts. Such a competition ultimately results in the liquidation of women enterprises.
- 2. Family ties :** In India, it is mainly a women's duty to look after the children and other members of the family. Man plays a secondary role only. In case of married women, she has to strike a fine balance between her business and family. Her total involvement in family leaves little or no energy and time to devote for business. Support and approval of husbands seem necessary condition for women's entry into business. Accordingly, the educational level and family background of husbands positively influence women's entry into business activities.
- 3. Male-dominated society :** Male chauvinism is still the order of the day in India. The Constitution of India speaks of equality between sexes. But in practice, women are looked upon as abla, i.e. weak in all respects. Women suffer from male reservations about a woman's role, ability and capacity and are treated accordingly. In nutshell, in the male-dominated Indian society, women are not treated equal to men. This, in turn, serves as a barrier to women entry into business.
- 4. Problem of finance :** Finance is regarded as "life-blood" for any enterprise, be it big or small. However, women entrepreneurs suffer from shortage of finance on two counts. Firstly, women do not generally have property in their names to use them as collateral for obtaining funds from external sources. Thus, their access to the external sources of funds is limited. Secondly, the banks also consider women less creditworthy and discourage women borrowers on the belief that they can at any time leave their business. Given such situation, women entrepreneurs are bound to rely on their own savings, if any, and loans from friends and relatives which are expectedly meager and negligible. Thus women enterprises fail due to the shortage of finance.
- 5. Scarcity of raw material :** Most of the women enterprises are plagued by the scarcity of raw material and necessary inputs. Added to this is the high prices of raw material on the one hand, and getting raw material at the minimum of discount, on the other. The failure of many women co-

operatives in 1971 engaged in basket making is an example of how the scarcity of raw material sounds the death-knell of enterprises run by women.

**6. Limited mobility :** Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon with suspicion. Cumbersome exercise involved in starting an enterprise coupled with the officials' humiliating attitude towards women compels them to give up the idea of starting an enterprise.

**7. Low risk-bearing ability :** Women in India lead a protected life. They are less educated and economically not self-dependent. All these reduce their ability to bear risk involved in running an enterprise. Risk-bearing is an essential requisite of a successful entrepreneur.

**8. Lack of education :** In India, around three-fifths (60%) of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative education, women are not aware of business, technology and market knowledge. Also lack of education causes low achievement motivation among women. Thus, lack of education creates problems for women in setting up and running business enterprises.

**9. Legal formalities :** Women entrepreneurs find it extremely difficult to comply with various legal formalities in obtaining licenses etc.

In addition to above problems, inadequate infrastructural facilities, shortage of power, high cost of production, social attitude, low need for achievement and socio-economic constraints also hold the women back from entering into business. According to Pandit Jawahar Lal Nehru, the then Prime Minister of India, "When woman moves forward, the family moves, the village moves and the nation moves".

### **1.33 REMEDIES FOR THE PROBLEMS OF WOMEN ENTREPRENEURS**

Once an enterprise starts, the difference between a male and female must be forgotten because an entrepreneur is an entrepreneur, business is business and profit and loss strictly depend upon entrepreneurial competencies. In order to make the women entrepreneurs to start the business venture, the following measures can be taken :

**1. Proper supply of raw materials :** Women entrepreneurs should be ensured of proper supply of scarce raw materials on priority basis. A subsidy may also be offered to make the products manufactured by women entrepreneurs cost competitive and reasonable.

**2. Creation of finance cells :** The Financial Institutions and banks which provide finances to entrepreneurs must create a special cell for providing easy finance to women entrepreneurs. For the convenience of such entrepreneurs, these cells should be manned by female staff.

**3. Changing the social attitudes :** It is absolutely necessary to change the negative social attitudes towards women. The elders particularly mothers and mother-in-law, need to be made aware of the potentiality of the girls and their role in the family and society. Unless the social attitudes are made positive through education and awareness programmes, the women entrepreneurs cannot get the required support from their family members.

**4. Concessional rate of interest :** The women entrepreneurs should be provided finance at concessional rates of interest and at easy repayment basis. The cumbersome formalities should be avoided in sanctioning the loans to women entrepreneurs.

**5. Setting up marketing co-operatives :** Proper encouragement and assistance should be provided to women entrepreneurs for setting up marketing co-operatives. These cooperatives shall help in getting the inputs at reasonable rate and they are helpful in selling their products at remunerative prices. Hence, middlemen can be avoided and women entrepreneurs can derive maximum benefits of enterprises.

**6. Offering training facilities :** Training is essential for the development of entrepreneurship. It enables the women entrepreneurs to undertake the venture successfully as it imparts required skills to run the enterprise. Additional facilities like stipend, good hygienic crèches, transport facilities etc. can be offered to attract more and more women entrepreneurs. Presently, the economically weaker entrepreneurs of the society are offered such training facility under Prime Minister's Rozgar Yojana (PMRY). FICCI, Lions club, Rotary club and other voluntary organizations can also arrange such training programmes for women entrepreneurs.

Thus, proper education, comprehensive training, setting up of separate financial cells, development of marketing co-operatives to a large extent will help to flourish the women entrepreneurship in India. Further, both government and non-government agencies should play an important role to solve the problems of women entrepreneurs.

#### **1.34 SUMMARY**

- The word 'entrepreneur' is derived from French word 'Entrepreneur' which was used to designate on organizer of musical or other entertainment.
- Entrepreneur is a person of telescopic faculty drive and talent, who perceives business opportunities and promptly seizes them for exploitation.
- An entrepreneur has to perform a number of functions right from the generation of idea upto the establishment of an enterprise.
- Entrepreneurship is a set of activities performed by an entrepreneur. Entrepreneurship is influenced by economic, social and psychological factors.
- A successful entrepreneur must be a person with technical competence, initiative good judgement, Intelligence leadership qualities, self-confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.
- The particular set of cultural arrangements adopted by a society is influenced by the physical environmental factor as well as man's attitude and desire to improve his habitat.
- The culture of a given society is also influenced by contacts with other cultural groups.

#### **1.35 SELF ASSESSMENT QUESTIONS**

1. Explain in brief the concept of entrepreneur.
2. Give various definitions of entrepreneur.

3. Enumerate the characteristics of entrepreneur.
4. Distinguish between entrepreneur and manager.
5. Explain in brief the functions of entrepreneurs.
6. Explain in brief classification of entrepreneurs.
7. Explain in brief the concept of entrepreneurship.
8. Explain in brief the evolution of concept of entrepreneurship in India.
9. Explain in brief the role of entrepreneurship in economic development.
10. Write a note on barriers of entrepreneurship.
11. Write the short notes on entrepreneurship culture.
12. Define motivation and discuss its importance.
13. Discuss various theories of motivation.
14. Define women entrepreneur and discuss its functions.
15. Define various problems of women entrepreneurs.
16. What are the remedies for the problem of women entrepreneur.

## **UNIT-2**

### **ENVIRONMENT AND ENTREPRENEURIAL DEVELOPMENT**

#### **AIMS AND OBJECTIVES**

After studying this unit you will be able to:

- Understand Entrepreneurial Environment
- Define Economic Environment & Social Environment
- Define socio-economic environment in the emergence of entrepreneurship.
- Understand Entrepreneurial Development Programme
- Define Role, Relevance and Achievements of Entrepreneurial Development Programme
- Understand Institutional Support to EDP
- Define Financial Institutions that Provide Finance to entrepreneurship.

#### **CONTENTS**

- 2.0 Entrepreneurial Development
- 2.1 Meaning of Entrepreneurial Development
- 2.2 Environmental factors
- 2.3 Socio-economic environment in the emergence of entrepreneurship
- 2.4 Meaning of EDPs
- 2.5 Definition of EDPs
- 2.6 Objectives of EDPs
- 2.7 Need of EDPs
- 2.8 Evaluation of EDPs
- 2.9 Problems in the conduct of EDPs
- 2.10 Suggestions to make EDPs successful
- 2.11 Organizing product/ process oriented EDPs
- 2.12 Course contents of EDP
- 2.13 Role of Entrepreneurial Development Programme
- 2.14 Relevance of Entrepreneurial Development Programme
- 2.15 Achievements of EDPs
- 2.16 Financial Institutions ^provide finance to entrepreneurship at National
- 2.17 Institutional support to small entrepreneurs
- 2.18 Specialized Institutions
- 2.19 Institutional support for EDPs
- 2.20 Summary
- 2.21 Self Assessment Questions

# **ENVIRONMENT AND ENTREPRENEURIAL DEVELOPMENT**

## **2.1 ENTREPRENEURIAL ENVIRONMENT**

Meaning: Entrepreneurial Environment is a combination of factors that play a role in the development of entrepreneurship first, it refers to the overall economic, socio-cultural and political factors that influence people's willingness and ability to undertake entrepreneurial activities.

Various economic social, political, technological and psychological factors are responsible for growth by entrepreneurship. Entrepreneurship environment refers to the various positive and negative constraints within which various enterprises are required to operate. The environment especially the external environment is highly dynamic. It keeps on changing and affects different organizations to a varying extent. The degree or extent of environmental impact depends upon the extent upto which the organization depends on it and the organizational response to the changes in environment. An entrepreneur should understand the behaviour of key environmental forces that are going to affect the present and future operations of the enterprise. The post independence period has witnessed tremendous social, economic and political changes, which have directly or indirectly influenced environment of entrepreneurship. During the last decade many established big business houses have yielded competitive advantage to relatively new entrants. In the automobile sector Hindustan Motors and Premier automobiles had to meekly surrender their market share to Maruti Udyog Limited and the same story was repeated in the detergent market wherein a relatively unknown new entrant Nirma grabbed major market share of Surf, a product produced and marketed by a reputed multinational corporation i.e. Hindustan Lever. All these examples clearly highlight the fact that an enterprise, howsoever big or reputed, cannot afford to remain insensitive to the external environment. It must identify the opportunities presented by the environment and exploit them in the best interests of the organization. No enterprise can afford to ignore the threats arising out of environment and in its interests, it must chalk out corrective measures for minimizing adverse impact of these threats.

## **2.2 ENVIRONMENTAL FACTORS**

The following environmental factors are:

### **I. ECONOMIC ENVIRONMENT**

One of the most important factor affecting entrepreneurship is economic environment. It comprises of capital, labour, raw material and market demand.

(a) Capital: Capital is one of the most important factor of production for the establishment of an enterprise. Adequate funds are required for bringing together other factors of production. It is with the capital that other factors of production like labour, raw material, machinery etc. can be arranged. Capital acts as a lubricant for the production process. Increase in capital investment is viable



projects result in increase in profits which help in accelerating the process of capital formation. Entrepreneurship activity too gets a boost with the easy availability of funds for investment.

(b) Labour: Easy availability of right type of workers also effect entrepreneurship. The quality rather than quantity of labour influences the emergence and growth of entrepreneurship. The advantages accruing to an entrepreneur due to low cost labour are often offset by the disadvantages arising out of immobility of unskilled workers. The disadvantages arising out of immobility and high cost labour can be better tackled by resorting to capital intensive technologies. But a country like India, confronted with the twin problems of unemployment and shortage of capital, cannot afford to adopt capital intensive technologies. Labour intensive rather than capital intensive technology will serve our interests in a better manner. The problem of labour immobility can be solved by providing infrastructural facilities including efficient transportation, wherever entrepreneurship is to be promoted.

(c) Raw Material: Raw material is one of the basic ingredient required for production. Shortage of raw material can adversely affect entrepreneurial environment. Without adequate supply of raw materials no industry can function properly and emergence of entrepreneurship too is adversely affected. Shortage, high prices and inferior quality of raw materials are the major problems confronting entrepreneurs. The more favourable are these conditions, better would be its influence on entrepreneurial emergence.

(d) Market: The role and importance of market and marketing is very important for the emergence and growth of entrepreneurship. Monopoly in a particular product line is more tempting to an entrepreneur than a competitive market. In the modern competitive world no entrepreneur can think of surviving in the absence of latest knowledge about market and various marketing techniques. The benefits of improved and healthy market conditions in the environment on entrepreneurial growth are self evident. Germany and Japan are examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Entrepreneurs should keep track of main trends in the economic environment. Market demand depends upon purchasing power, which in turn depends upon current income, prices, savings and availability of credit. Changes in major economic variables like money income, cost of living, interest rates, savings and credit availability have an immediate impact on the working of an enterprise.

## **II. SOCIAL ENVIRONMENT**

Social environment strongly affect the entrepreneurial behaviour which contributes to entrepreneurial growth. The social setting in which the people grow, shapes their basic beliefs, values and norms. The social factors can be (i) Family background (ii) Friends, relatives and teachers, (iii) Religion, (iv) Social status (v) Social mobility and social marginality.

Family background greatly influences the entrepreneurial environment and maintenance of social system. The environment of the family affect entrepreneurship. Joint family can provide family resources to invest and expand family business. If the father is a professional entrepreneur or businessman, the son is more likely to enter the same line because of certain inherent advantages. Background of a family in manufacturing provide a source of industrial entrepreneurship. Mobility of the entrepreneur is influenced by the occupational and social status of the family. Social status too affect entrepreneurship.

All human beings aspire for high social status and on attaining a particular level they start aspiring for higher & higher levels. People become quite responsible in their pursuit of protecting and developing their status. Chester I Bernard believes that the desire for improvement and protection of status, forces people to behave responsibly. People work hard to maintain and improve their status, and it contributes to entrepreneurial growth.

Caste and religion of entrepreneur are contributory factors of entrepreneurial growth. Some of the castes have inculcated in themselves a particular culture that fosters entrepreneurship. In India certain ethnical communities engaged in trade and industry for centuries like Jains, Baniyas, Vaishyas and Khattris have been the dominant sources of entrepreneurship. Similarly certain religious communities like the Parsees, Marwaris and Sindhis have inclination for industrial activity and this has definitely helped in the emergence and growth of entrepreneurship. A person is likely to assume the guidelines or rules of the reference group to which he belongs. The reference group can be religious groups, close circle of friends and relatives. The prospective entrepreneur would discuss his business ideas with them and seek their advice before starting a new business.

Social mobility involves the degree of social and geographical mobility and the nature of mobility within the system. The opinion that social mobility is crucial for entrepreneurial emergence is not unanimous. There are persons of the view point that high degree of mobility is conducive for the emergence of entrepreneurship. At the, same time there are others of the opinion that lack of mobility would result in the emergence of entrepreneurship. There are still few others putting forth the argument that the system should not be too flexible nor too rigid because the former would pull the entrepreneur away from his role and latter would restrict the entrepreneur. Social marginality also positively influences entrepreneurship. Social marginality implies a situation in which there is a discontinuity between the individuals personal attributes (comprising of physical characteristics, intellectual make up and social behaviour patterns) and the role or roles which the individual plays in the society. A person belonging to a social group traditionally constrained to enter economic activity and barred from any other activity by the society is expected to choose the ownership manager role in a small industry. The number of openings available also affect the emergence of entrepreneurship. Expanding economy and increase in per capita income

give boost to the entrepreneurial activity. Similarly, the pace of structural change in the economy opens new opportunities| for the prospective entrepreneurs.

### **III. PSYCHOLOGICAL FACTORS**

McClelland developed theory of Achievement Motivation.-Achievement motivation is a drive to overcome challenges. According to McClelland a constellation of personality characteristics which are indicative of high need achievement is the major determinant of entrepreneurship development.

If the average level need achievement in a society is relatively high, one can expect a relatively high amount of entrepreneurship in the society. The trait of need for achievement is not by birth and can be developed through intensive training programmes. In India, Small Industries Training Institute (SIET) Hyderabad and Small Industries Service Institutes (SISI) and others all over India are extensively conducting training programmes aimed at generating confidence amongst new entrepreneurs. In Kakinada Experiment, McClelland carried out a full fledged programme in Kakinada City of Andhra Pradesh. The training was to be given to a group of persons and was designed primarily to stimulate the imagination and encourage introspection of personal motivation and community goals. McClelland concluded that those participating in the programme displayed a more active business behaviour and worked for longer time. He found that caste traditional beliefs or even western ways of life did not determine the mental make up of participants. McClelland explains that people with low achievement motivation are prepared to work hard for money or other such incentives but the people with high achievement motivation work for status.

He states that people with high need for achievement possess the following attributes

- (a) Prefer personal responsibility for decisions
- (b) Are moderate risk takers and
- (c) Possess interest in complete knowledge of the results of decisions.

McClelland believes that achievement motivation can be developed through intensive training programmes.

Hagen was of the opinion that the withdrawal of status respect of a group led to the emergence of entrepreneurship in Japan.

Hagen states that the initial conditions leading to eventual entrepreneurial behaviour is the loss of status respect by a group and four different types of events can produce status withdrawal—

- (a) The group may be displaced by force.
- (b) It may have its value symbols denigrated.
- (c) It may drift into a situation of status inconsistency.

- (d) It may not be accepted into expected status on migration in a new society. Whenever there is any withdrawal of status respect it would lead to four different responses and create four different types of personalities.
- (a) Retreatist. It refers to the person who continues to work in the society but remains indifferent to his work and position.
- (b) Ritualistic. He is the type of person who adopts a kind of defensive behaviour and acts in a way accepted and approved in his society but with no hope of improving his position.
- (c) Reformist. He is the one who forments a rebellion and attempts to establish a new society.
- (d) Innovator. A creative individual who is likely to be an entrepreneur.

Hagen believes that creative personalities emerge when the members of some social group experience the withdrawal of status respect. Innovation, which is basic for the emergence of entrepreneurship, requires creativity and such creative individuals act as catalytic agents for economic growth.

#### **IV. ATTITUDE OF GOVERNMENT**

Government all over the world can play a very important role in the emergence of entrepreneurship. Positive actions by the government can facilitate-grow-potent influence entrepreneurial emergence and growth. The Industrial Policy framed by the government proves to be crucial factor for the setting up of industrial units. The government by providing right type of infrastructural facilities and other incentives can definitely play a positive role leading to the emergence of entrepreneurial class and setting up of more and more viable industrial units. The supportive actions of the government help in creating conducive environment which finally leads to entrepreneurial growth. It is only due to the various steps initiated by the government under development planning over years that positive environment for entrepreneurial growth has been created. The slogan 'Export or Perish' led to export promotion.

The government took three important steps in various industrial resolutions.

- (a) To maintain a proper distribution of economic power between private and public sector.
- (b) To encourage the tempo of industrialisation by spreading entrepreneurship to every city, town or village.
- (c) To disseminate the entrepreneurial talent concentrated in a few dominant communities to a large number of people of varied social and economic groups.

It is the government which regulates business activities. Government policies are going to influence all the decisions of the entrepreneurs regarding what to produce, how much to produce, of what quality to produce, where to produce and for whom to produce. The entrepreneurs are to operate within the concessions and limits set by the government. It is in the interest of the potential

entrepreneur to thoroughly scan the government policies before taking decision with regard to setting up his enterprise.

## **V. EDUCATION AND TECHNICAL KNOW-HOW**

Education, entrepreneurship and development are interrelated. Education helps in the development of capabilities of individuals which facilitates the emergence and growth of entrepreneurship. An alert entrepreneur, in order to survive in the modern competitive world, has to keep an eye over the technological advances taking place around. These technological developments provide opportunities for the entrepreneurs to develop and produce new products. Moreover various studies too have revealed that many entrepreneurs have been driven to the threshold of entrepreneurship for making use of their technical and professional skills. After acquiring these skills they want to use these skills for themselves rather than benefiting others by taking employment. Thus, the high level of education and training may enable the entrepreneurs to use their entrepreneurial talent more effectively and efficiently.

## **VI. FINANCIAL ASSISTANCE**

Liberal financial assistance on easy terms & conditions act as a motivating force for boosting the morale of the young entrepreneurs to set up their own enterprises. To create an environment conducive to entrepreneurial growth, a policy of support and incentive has been introduced by the government. Various types of subsidies, concessions and facilities are extended to attract entrepreneurs in backward areas. The government of various states have floated various schemes aimed at providing adequate financial assistance to the entrepreneurs on easy terms and at low rate of interest.

## **VII. MOBILITY OF ENTREPRENEURS**

Mobility refers to the drive in the entrepreneurs to locate green pastures for setting up their units. It is an urge to move to other places in search of better opportunities. In India, Marwaris, Sindhis and Sikhs have moved to every corner of India and abroad to carry on business and entrepreneurial activities. This will help in reducing regional imbalances in economic growth. In the initial phase of industrialization, entrepreneurs set up their units at or near their places due to limited resources, communication, bottlenecks and absence of institutional support. An entrepreneur after tasting success and gaining experience is ready to make investment anywhere. He is always on the lookout for opportunities, which can be exploited for furthering his business interests. He is not tied to any place and is ready to move to any place wherever viable business opportunities exist.

## **VIII. COMPETITIVE FACTORS**

No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of competing firms, their scale of operation, product range and features, prices, channels of distribution, terms & conditions of sale etc.

Michael E Porter states the following four factors for the analysis of industry and competitors.

1. Existing and Potential Extranets. Various aspects studied are capital requirement, scale of operation, product differentiation, channels of distribution etc. Threat perception from existing and potential extranets is scanned under this head.
2. Bargaining Power of Buyers. Keeping in mind demand and supply position, bargaining power of buyers is studied.
3. Bargaining Power of Suppliers. Bargaining power of suppliers of raw materials and other factors can be assessed keeping in mind the demand and supply position.
4. Availability of Substitutes. Demand for a particular product will depend upon the availability and prices of substitutes.

## **IX. COMPETITIVE OR INDUSTRIAL ENVIRONMENT**

An industry comprises of group of enterprises offering similar products or services. Industry includes close substitute products or services that satisfy same consumer needs. No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of the competing firms, their scale of operation, product range and features, prices, channels of distribution, terms and conditions of sale etc. An entrepreneur as a strategic manager has to analyse competitive forces in industrial opportunities and threats that a company will meet.

### **2.3 SOCIO-ECONOMIC ENVIRONMENT IN THE EMERGENCE OF ENTREPRENEURSHIP.**

Entrepreneurship does not emerge & grow spontaneously. Rather it is dependent upon several economic, social, political & legal factors. An entrepreneur should understand the behaviour of key environmental forces that have an implication on the enterprise & get a grasp of the technique for environmental scanning.

The socio-economic environment plays a crucial role in governing entrepreneurial acumen among the people. The growth of entrepreneurship depends on a favourable socio-economic environment. Environment is the aggregate of external factors within which the enterprise operates. In order to achieve success the entrepreneur has to operate and adapt themselves to different situations of the environment.

#### **(A) Social Environment:**

A conducive & congenial social environment helps in manifold increase of entrepreneurial activities. Social environment presupposes a number of social factors which are critical for the growth of entrepreneurship. These factors are:

- (i) Family background
- (ii) Caste & religion

- (iii) Kith & Kin
- (iv) Social status
- (v) Social mobility
- (vi) Social marginality
- (i) Family Background :

This is one of the most crucial factor influencing the entrepreneurial movement. This comprises of family size, type of family, status of family etc. In India, there are joint or nuclear family which have wider impact on the running of the enterprise. There is more emotional attachment of family members in a joint family which influences the entrepreneurship supply to a greater extent. For example, if father is a businessman or professional, son is likely to adopt the same occupation and continue the business or profession of the father.

- (ii) Caste & Religion :

In India, caste and religion of the entrepreneur also plays an important role in influencing entrepreneurial emergence and growth. Specific castes & religions in the society exhibit more entrepreneurial talent than their counterparts as they have possessed latent potential and specialized culture which helps to foster entrepreneurship. For example, Parsis & Marwaris of Maharashtra, Vysyas of Andhra Pradesh. Jains of Gujarat & Rajasthan, Sikhs of Punjab have exhibited extraordinary entrepreneurial talent in enterprise building & management. But in recent times this trend is changing. Entrepreneurial traits do not belong to any specific caste or religion, rather they emerge from varied communities and religions.

- (iii) Kith & Kin :

Entrepreneurial initiatives are influenced by kith & kin, friends, relatives, well wishers, teachers & trainers. They exert considerable influence in decision-making process for starting a particular business which has significant effect on creation of entrepreneurship. A person is likely to adopt the guidelines or rules of the reference group to which he belongs.

- (iv) Social Status :

Social status plays a very important role in the growth of entrepreneurship. Every human being aspires to be a man of high social esteem in the society. This aspiration drives him to be self-propelled & entrepreneurial in his activities & once he achieves a reasonable level, his aspiration & desires for it starts getting multiplied. People are very much interested in protecting and developing their status.

- (v) Social Mobility:

Social mobilities involves the degree of social & geographical mobility & nature of mobility channels within a system. This factor greatly influences the emergence of entrepreneurship. There are different opinions on the influence of social mobility on the entrepreneurial environment.

Hoselitz & McClelland are of the view that openness of a system and flexibility in role relations reveals an imperative role of mobility within a system of entrepreneurship movement. High degree of social mobility would help in promoting entrepreneurial talents, thereby paving the way for entrepreneurial development. In the view of Hagen, lack of mobility promotes entrepreneurship.

(vi) Social Marginality :

Social marginality has also considerable impact on the entrepreneurial growth. The persons from socially marginal classes often come forward and show keen interest in choosing entrepreneurship as their career.

(vii) Social Values :

Social values and the philosophy of a country play a predominant role in the growth of entrepreneurial culture in the society. Ideologies of the society like freedom, democracy, secularism, emancipation of weaker sections, fair play, tolerance, social justice & non-violence also influence the promotion of entrepreneurship.

B. Economic Environment:

Economic environment refers to those economic factors which influence the entrepreneurs in identifying the business opportunities & giving their decision to finalize the ventures out of those opportunities that are economically viable & financially feasible. The following are the most important economic factors which very often affect entrepreneurship.

(i) Capital requirements;

(ii) Availability of labour;

(iii) Availability of raw materials

(iv) Market demand

(i) Capital Requirements : Capital is one of the most important factor affecting almost all related elements such as raw materials, labour, machinery etc. Adequate funds are required for bringing together other factors as they can be arranged with the help of capital. Entrepreneurship activity too gets a boost with the easy availability of funds for investment. Investment decisions are generally influenced by the availability of both fixed & working capital. Economic & financial environment should be conducive so as to broaden the base of availability of capital so as to accelerate entrepreneurial development.

(ii) Availability of Labour: Easy availability of quality labour rather than quantity also affects the emergence & growth of entrepreneurship. The disadvantages arising out of immobility & high cost labour can be better tackled by resorting to capital intensive technologies. But a developing country like India, cannot afford to adopt capital intensive technologies because of the acute problems of high rate of unemployment & shortage of capital. Labour intensive rather than capital intensive technology will serve our interests in a better manner.



(iii) **Availability of Raw Materials :** Raw materials is one of the basic ingredients required for production. Shortage of raw materials can hamper the entrepreneurial growth. No industry can function and prosper without adequate supply of raw materials which in turn adversely affects entrepreneurship development. Hence, availability of materials in right quantity, of good quality, at right prices & at right place influences the growth of entrepreneurship in the right direction. The more favourable these conditions, the better would be its influence on entrepreneurial emergence.

(iv) **Market & Market incentives:** The knowledge of market & marketing cannot be underestimated for the development of entrepreneurship. Hence, the entrepreneur must possess the knowledge & track of main trends in the marketing environment to survive for a longer period in the market. The size & composition of market, the knowledge of marketing techniques or strategies adopted by competitors in the market shall influence the emergence & growth of entrepreneurship.

## **ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDP)**

### **2.4 Meaning of EDP**

Entrepreneurial development is a process by which persons are prepared to face business uncertainties and risks through proper education, training, motivation, orientation and re-orientation of entrepreneurs.

Entrepreneurial development programme plays very important role in the development of business and industry. EDPs are based on the thinking that the attitude of people can be changed by developing their skill, so that they can convert their ideas into an organization. It is not a training programme but it is a technique which helps to increase motivation, working capacity and knowledge of the prospective entrepreneurs.

An entrepreneurial development programme is a process to help the entrepreneur in strengthening and fulfilling his motive and in acquiring skills and capabilities to promote and manage his enterprise efficiently and effectively.

### **2.5 DEFINITION OF EDP**

According to C.B. Gupta & N.P Srinivasan, development of an entrepreneur means inculcating entrepreneurial traits into a person, imparting requisite knowledge, developing the technical, mechanical, financial and marketing skills and building the entrepreneurial attitude.” The process of entrepreneurial development involves equipping a person with the relevant information needed for enterprise building and sharpening his entrepreneurial class.

In the words of Joseph. E. Steperek, “intelligence, motivation, knowledge & opportunity are the pre-requisites for entrepreneurial development.”

It has been rightly pointed out that entrepreneurial development is a prerequisite qualification for an overall economic development of any country.

The importance of small scale industries in employment creation and economic development made the government realise & envisage promotional packages facilitating the establishment of new enterprises. To promote entrepreneurial growth, the policy makers and financial institutions started thinking in terms of imbibing entrepreneurial culture through training interventions & thus, the emergence of entrepreneurial development programmes.

Entrepreneurial Development Programme may be defined “as programme designed to help individuals to strengthen his entrepreneurial motive by acquiring skills and capabilities necessary for playing his entrepreneurial role effectively.”

The EDP, considered as an effective human resources development programme, helps in removing unemployment, promotion of small scale units, development of industrial regions, overall economic development etc.

## **2.6 OBJECTIVES OF EDPs**

- (i) To accelerate the pace of industrial development by enlarging the supply of entrepreneurs;
- (ii) Inculcating entrepreneurial qualities and motivating the prospective entrepreneurs to achieve the goal;
- (iii) Promoting the growth of small and medium scale enterprise sectors offering better potential for employment generation & dispersal of industrial units;
- (iv) Providing productive self-employment avenues to a large number of educated and less educated unemployed young men & women passing as well as dropping out of schools & colleges;
- (v) Improving the performance of small & medium-scale industries with the help of carefully selected and trained entrepreneurs and diversifying the sources of entrepreneurship;
- (vi) To industrialize rural and backward areas.
- (vii) To improve managerial skills of entrepreneurs.

An entrepreneurial development programme highlights the fact that an individual can be developed, their outlook can be changed and their ideas can be given a true shape of enterprises through an organized and systematic programme. Entrepreneurial development programme is not only a training programme but also a technique of enhancing the motivation, skills and knowledge of the potential entrepreneur, simultaneously aiming at arousing and reforming the entrepreneurial behaviour in their day-to-day activities and helping them develop their own ventures or enterprises. In other words, the process of entrepreneurial development involves equipping a person with the information necessary for enterprise building and sharpening his entrepreneurial skills.

## **2.7 NEED OF EDPs**

The Entrepreneurship Development Programme may be regarded as an important, innovative breakthrough in the strategy for developing human resources and promoting economic

development of the country. In the words of A. N. Oza; the EDP is an innovation in which those persons possessing certain distinct qualities of entrepreneurship undergo counselling, motivation and training in order to strengthen their self-confidence, seize a business opportunity, initiate an enterprise and be the master of his destiny i.e., to become entrepreneurs instead of passively waiting for suitable employment or continue suffering from frustration in their current jobs. In the above backdrop, the role of EDP can be considered as the most important tool to tackle- the problems of poverty and widespread chronic unemployment through rapid growth of small scale industrial sector in India.

Entrepreneurial development being an organised and systematic development results in the proper utilisation of local resources, generating more employment opportunities, promotion of small scale units & overall development of an area. One trained and successful entrepreneur can become a role model for others to follow. In other words, trained entrepreneurs act as catalysts of industrial development and economic progress. EDP is a comprehensive programme comprising the following process :

- (i) Enhancing the motivation, knowledge and skills of the potential entrepreneurs.
- (ii) Arousing and reforming the entrepreneurial behaviours in their day-today activities.
- (iii) Assisting them in the development of their own enterprise. EDPs not only instills confidence amongst participants but also prepares them to face numerous problems confronting business with patience and boldness.

EDPs are becoming increasingly popular now-a-days and this can be judged on the basis of the following points :

1. **Eliminates Poverty & Unemployment:** The twin problems of poverty and unemployment are the major obstacles in the path of economic development that most of the developing and under developed countries have to dealt with. EDPs provides an answer to solve the above problems to a greater extent by helping unemployed people to opt for self-employment thereby creating job for themselves as well as for others in the process.

Under different five-year plans in India, a number of schemes such as IRDP, ERRP, SGSY, PMRY, REGP, NREP, etc., were introduced from time to time to solve the problems of poverty and unemployment by inducing the people to take up self-employment activities or entrepreneurship as an alternative to wage employment.

2. **Balanced Regional Development:** Successful EDPs not only helps in accelerating the pace of industrialisation but also results in reduction of concentration of economic power in the hands of few. Small scale units can be put up in industrially backward and remote areas with limited financial resources which help in achieving balanced regional development. The Government in order to encourage the entrepreneurs to set up more small scale units in the backward regions to

promote balanced regional development of areas has offered several incentives, concessions and subsidies. EDPs aimed at promoting small scale units are more useful for balanced regional development than medium and large scale units.

3. Prevents Industrial Slums : Industrially developed areas are faced with the problems of industrial slums resulting in overburdening of civic amenities and having adverse impact on the health of the people. EDPs help in the removal of these slums as entrepreneurs are provided with various schemes, incentives, subsidies & infrastructural facilities to set up enterprises of their own in the industrial backward areas. This not only helps in preventing the industrial slums but also reduces pollution, traffic congestion, overcrowding in development areas and overtaxing of civic amenities.

4. Utilizing Locally Available Resources : Local resources remain unutilized until the absence of any initiation to develop that area industrially and that too at lower cost. Alert entrepreneurs seize the opportunity and exploit it in the best interests of the area and industry. The EDPs can help in harnessing locally available resources by providing guidance, training and education to the entrepreneurs and assist in setting up industrial units which will lead to creation of a healthy base for sound economic growth and rapid industrialisation.

5. Reducing Social Tension : Unemployment amongst the young and educated people is a major cause of concern as the mere frustration of not getting gainful employment and the lure of money may compel them to indulge in antisocial and anti-national activities resulting in social unrest. EDPs help in channelizing the talent of this section of the society in the right direction by proper guidance, training and assistance for setting up their enterprises which results in the generation of self-employment and prevention of social tension, unrest, etc.

6. Improvement in the standard of living: 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 resulting in the increase in the overall productivity and per capita income in the country. By adopting latest innovations during production of variety of goods and services and the efficient use of resources the entrepreneurs produce goods of better quality at a cheaper & reasonably lower costs. With better quality products available at reasonable prices which enables the consumers to buy freely indicates improvement in the standard of living. EDPs, thus, help in the generation of employment, industrialization of rural and backward areas, providing gainful self-employment, developing small and medium sized industries and diversifying the sources of entrepreneurship.

## 2.8 EVALUATION OF EDPs

Evaluation of an EDP can be judged on the basis of extent of success achieved in the realization of objectives established under EDP.

According to Dr. Sharma entrepreneurial performance is a function of the following factors.

- (a) Socio cultural background of the entrepreneur (SB). This implies the environment in which the entrepreneur was born and brought up. It conditions the values and attitudes of the entrepreneur.
- (b) Motivational force (MF). It implies the motives which prompts a person to undertake entrepreneurship e.g. wealth, status, self employment etc.
- (c) Knowledge and ability of the entrepreneur (K.A.). It refers to the education, training and experience of the entrepreneur.
- (d) Financial Strength (FS). It means the funds which an entrepreneur can mobilise from internal and external sources.
- (e) Environmental Variables (EV). These consist of government policies, market conditions, availability of technology and labour situation. Symbolically Entrepreneurial Performance (EP) can be represented in the following way—

$$EP = f(SB, MF, KA, FS \text{ and } EV)$$

Various studies have been undertaken by different organisations to find out how many participants in different EDPs have actually started their own enterprise after completing their training under EDPs. Entrepreneurship Development Institute of India, Ahmedabad had made nationwide evaluation study on the effectiveness of EDPs. The major findings of this study are—(i) One out of four trainees actually started his/her enterprise after completing EDPs (ii) The final start up rate is higher around 32 per cent, (iii) About 10 percent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If proper assistance is not provided they may add to the category of 29 percent trainees who have already dropped the idea of setting up their own enterprises (iv) 17 percent have given up the idea of starting their ventures as they are engaged in other activities.

The following main criteria can be employed to comment on the performance of entrepreneurs.

- (i) Financial Results. Judgement about the financial health of the enterprise can be made on the basis of various yardsticks like return on capital employed:, net profit over sales etc.
- (ii) Gestation Period. It represents the time gap between the registration and commencement of commercial production. Gestation period of two to three years is regarded as satisfactory by the financial institutions. Projects can be delayed due to various reasons like delay in governmental

approvals, assistance from financial institutions, manpower availability problem and problems with collaborators.

(iii) Capacity Utilisation. It depends upon the demand for finished products and availability of various factors of production like funds, raw material, power labour etc. Break even occurs for majority of entrepreneurs at 60 percent of installed capacity. Approximately 50 percent of entrepreneurs were operating at 80% of installed capacity.

(iv) Expansion and Diversification. Expansion refers to the increased production of the same product whereas diversification implies production of new type of products. Depending upon the demand and availability of resources firms can opt for expansion or diversification.

(v) Value Addition. It refers to the gross value of output minus value of raw materials and other inputs used in the production. More is the value addition more efficient is the entrepreneur,

(vi) Other Factors. Various other factors can be used to examine entrepreneurial effectiveness. These can be employment generation, rural development, sales turnover, export promotion and import substitution etc.

## **2.9 PROBLEMS IN THE CONDUCT OF EDPs**

1. No Policy at the National Level. Though Government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.
2. Problems at the Pre training Phase. Various problems faced in this phase are—identification of business opportunities, finding & locating target group, selection of trainee & trainers etc.
3. Over Estimation of Trainees. Under EDPs it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies, thus, overestimate the aptitude and capabilities of the educated youth. Thus, on one hand the EDPs do not impart sufficient training and on the other financial institutions are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.
4. Duration of EDPs. An attempt is made during the conduct of EDPs to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises. Duration of most of these EDPs varies between 4 to 6 weeks, which is too short a period to instill basic managerial skills in the entrepreneurs. Thus the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

5. Non Availability of Infrastructural Facilities. No prior planning is done for the conduct of EDPs. EDPs conducted in rural and backward areas lack infrastructural facilities like proper class room, suitable guest speakers, boarding and lodging etc.
6. Improper Methodology. The course contents are not standardised and most of the agencies engaged in EDPs are themselves not fully clear about what they are supposed to do for the attainment of pre-determined goals. This puts a question mark on the utility of these programmes.
7. Mode of Selection. There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organisations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates.
8. Non Availability of Competent Faculty. Firstly there is problem of non availability of competent teachers and even when they are available, they are not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.
9. Poor Response of Financial Institutions. Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered. Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

## **PROBLEMS FACED BY WOMEN ENTREPRENEURS**

Various problems are as under

- (i) Stiff competition from male entrepreneurs
- (ii) Low ability to bear risk.
- (iii) Low level of family support.
- (iv) Shortage of funds.
- (v) Slow progress of Women Entrepreneur Association.
- (vi) Production, marketing, managerial, administrative and organizational problems

## **2.10 SUGGESTIONS TO MAKE EDPs SUCCESSFUL**

1. Emphasis on Stimulating, Supporting and Sustaining Activities.

There should be balance between stimulating, supporting and sustaining activities for making EDPs successful. Stimulating activities comprise of entrepreneurial education, publicity of entrepreneurial facilities, motivational training and assistance in the identification of viable projects, creating a common platform for entrepreneurs where they

can share their problems, experiences and success. Under supporting activities, comes various forms of support that can be extended to the potential entrepreneurs for setting up and running of their units. Supporting activities include registration, funds mobilisation, licence, tax relief and incentives and management consultancy services. Sustaining activities include expansion, diversification, modernisation and quality control.

EDPs normally lay more emphasis on stimulating and supporting activities and neglect sustaining activities. This results in imbalance which will adversely affect entrepreneurial development and the credibility of EDPs will be eroded.

2. **Model Based EDPs.** Entrepreneurial development is an area where there is no ready made solution available. The agency undertaking an EDP is expected to have indepth study of the demand pattern and availability of local resources. Any particular model of training which may be very successful in one area may prove to be utter failure in another area.
3. **Focus on Achievement Motivation.** In order to create right impact on potential entrepreneurs it is essential to develop achievement motivation amongst them through proper training and conducive environment. Entrepreneurs should be assisted in converting their dream into reality. A successful entrepreneur will serve as a role model for others and they will like to follow him.
4. **Designing of Viable Projects.** A viable project is that project which is feasible in terms of availability of resources and market potentials. A viable man has the requisite aptitude and competence to initiate a project. The EDP organisers should prepare the projects keeping in mind local resources, funding, training requirements and assessing the feasibility of the same. The entrepreneurial development agencies should select right people, impart right training and entrust viable projects to them for making EDPs successful.
5. **Selection of Trainees.** Trainees should be selected after proper screening. Educated unemployed youth having aptitude for self employment should be selected for EDPs. Persons having traditional background in the chosen economic activity should be preferred. Efforts, money and other resources must not be wasted on those trainees, who lack requisite aptitude and commitment.
6. **Training of Trainers.** Success of EDPs depends on the trainers. They should be committed, competent and qualified. Trainers must be fully acquainted with whatever is latest in their respective fields.
7. **Organizing Part Time Programmes.** Part time EDPs can definitely suit those persons who are working or studying somewhere else. These EDPs can be conducted during week ends or in the evening. By providing part time EDPs, we can provide opportunity to those who cannot joint any regular EDP.



8. Duration of EDPs. There are no short cuts for entrepreneurial development. Under EDPs, an attempt is made to provide self employment to unemployed through a series of activities involving identification of potential entrepreneurs, providing them with the requisite training, developing achievement motivation amongst them and helping them in various ways for making them a successful entrepreneur. Since it is a lengthy process and as such the duration of EDPs should be increased to six months so that these may remain relevant and serve the purpose for which we are conducting these programmes.

### **PRODUCT PROCESS ORIENTED EDPS**

The concept of organizing product/process oriented EDPs was introduced from 1990 onwards by Small Industries Development Organization as tool for widening the entrepreneurial base by motivating a large number of young entrepreneurs in setting up self employment ventures. The main feature of such training programmes is that participants are given practical exposure in selected manufacturing activities in addition to class room lectures, group discussions, case studies etc.

Since 1960 a large number of entrepreneurial development programmes were organized both by the Government and Non Government Organizations. The courses were designed to develop entrepreneurial skills among the participants. It was assumed that the proposed activities and technology was not an essential input. This assumption was valid for technocrat entrepreneurs who had good technology base but it was not so as far as other entrepreneurs were concerned. It was discovered that the success rate amongst the participants of the general entrepreneurial development programmes was uniformly low due to lack of proper knowledge of the participants in key areas like technology, marketing, project management and product quality. The significance of these inputs became more crucial for small entrepreneur who had to gear themselves up for multi faceted role of designer, production supervisor, financial controller and marketing person besides routine managerial activities. Looking at these shortcomings experts in Small Industries Development Organisation (SIDO) through systematic analysis and brain storming sessions came to the conclusion that entrepreneurial development programmes would need to be restructured with a thrust to improve success ratio.

Small Industries Service Institute caters to the needs of existing small scale units and prospective entrepreneurs to strengthen and develop small scale industries. It provides common facility support services such as machinery, heat treatment, electroplating, designs and drawings to small scale units to enhance their productivity. It initiates various promotional programmes aimed at developing entrepreneurship amongst the educated unemployed youth belonging to various sections of society. This Institute has conducted various product and process oriented programmes of four to six weeks duration in different fields comprising of food processing, computer education,

fashion garments, knitwear hosiery and cosmetics including herbal cosmetics. This institute instead of paying stipend, levied fee on participant and still could attract a large number of potential entrepreneurs. The institute took an initiative to design innovative course curricula to meet the requirements of the programme. These programmes aim at instilling achievement motivation, opportunity identification guidance, knowledge about assistance being provided by various promotional agencies, project management etc. An effort is also made to improve technological and marketing competence of the entrepreneurs. Theoretical knowledge is also supported by practical exposure.

## **2.12 COURSE CONTENTS OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME**

Contents of entrepreneurial development programme are decided keeping in mind the training requirements of both existing and the potential entrepreneurs.

The training programme may include the following aspects.

- (i) Knowledge about entrepreneurship.
  - (ii) Motivational Training.
  - (iii) Basics of Management.
  - (iv) Project Study.
  - (v) Support System.
  - (vi) Initiating the Venture.
  - (vii) Factory Visits/Plant-Training
- (i) Knowledge about entrepreneurship. Main objective is to acquaint a prospective entrepreneur about minute details regarding factors affecting business, role of entrepreneurs in economic development and availability of various incentives and facilities. Innovative behaviour related issues should be focused to enlighten the entrepreneurs about future prospects and challenges. Developmental agencies should highlight various risks inherent in the business like technical, social, economic and environmental and suggest suitable strategies for overcoming these risks.
  - (ii) Motivational Training. Motivational training inputs are meant to develop the motivation of potential entrepreneurs and their enterprise building skills. Motivational training is aimed at increasing the participant's level of confidence and developing the right attitude towards business. The understanding of the entrepreneurial personality and behaviour will be enhanced through interaction with successful and not so successful entrepreneurs.
  - (iii) Basics of Management. Prospective entrepreneurs are made conversant with the basic management and technical know how to enable them to operate their enterprises effectively and efficiently. These entrepreneurs are given exposure in different types of managerial problems for sharpening their problem solving and managerial skills. This management

training may include knowledge about general management, purchase and production management, marketing and financial management.

- (iv) **Project Study.** Project inputs are required to help the potential entrepreneur to convert their project ideas into viable projects. Necessary information regarding opportunities available in the area and assistance in the selection of a product/project should be made available to the prospective entrepreneurs. Essential information regarding project feasibility, viability and implementation should be provided. Knowledge about technical and financial feasibility should be made available.

Prospective entrepreneurs should be imparted proper training about scheduling of various activities, provision for effective supervision and timely execution of project to save on delays and cost overruns,

- (v) **Support System.** Under this an attempt is made to tempt prospective entrepreneurs by highlighting various incentives and facilities being made available by the government. Support system is used as motivational input to encourage the participants about the future prospects. They are made conversant with the concessions available like tax incentives, tax holiday, backward/zero industries area concessions, soft loans scheme etc. Procedure for applying for these concessions and availing these concessions/facilities is also made clear to the entrepreneurs.
- (vii) **Initiating the Venture.** This main purpose here is to give practical shape to the enterprise. Here an attempt is made at familiarizing the participants about the proposed structural arrangements for the business or industrial unit. Formalities regarding registration and licensing procedures, forms of organizations etc are made clear to the participants. Training is also imparted to entrepreneurs for mobilising of various resources for the setting up and smooth running of the enterprise.
- (viii) **Factory Visits/Plant Training.** Practical exposure to the participants is given organizing plant visits. These trips provide entrepreneurs with opportunities to study entrepreneur, behaviour and production processes.

The training method comprise of lectures, discussions, case studies, preparation of project report and workshop exposure.

### **2.13 ROLE OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME**

An individual has two types of qualities, traits or skill i.e innate skills and skill which are not entirely innate. Innate skills are those skills which can't be enhanced or developed. For, example honest, integrity or habit of Industry. Such skills are found in the blood of an individual. He inherits these skills in the form of genes from his parents. These can't be developed or enhanced through education, training or experience.

An individual has also some qualities which are not innate. Such qualities can be enhanced through, EDPs, education, training and experience. Similarly foresightedness can also be enhanced through education, training and experience. EDPs help in enhancing qualities of an entrepreneur so that he can successfully run his venture. EDPs are helpful in the following ways:

(i) Enhancing entrepreneurial qualities

The most important role of EDPs is to enhance the qualities of an entrepreneur so that he can successfully run his enterprise. EDPs through training, education, experimental orientation programmes tend to develop or enhance the entrepreneurial qualities.

(ii) Helps in formulating projects

EDP helps an entrepreneur in formulating project by providing the entrepreneur necessary technical guidance and support. EDP helps him in formulating viable project within his means. It gives him necessary information regarding infrastructural facilities, machinery and equipment, their sources of supply along with addresses. Information regarding other inputs such as raw materials, labour, land and building, power, methods of production, testing and quality control is also made available.

(iii) Enhances capacity to search and exploit business opportunities:

EDP helps an entrepreneur to select a project suiting his attainments, resources and attitude. It helps him in evaluating the various projects and products and choosing the project and product which will give him maximum profit and which have good scope for further development in future.

(iv) Enhances capacity to search and exploit business opportunities:

Business opportunities have to be searched and exploited, they will not come automatically. EDPs highlight available opportunities to the entrepreneurs and encourage them to grab and exploit them. The entrepreneurs are guided to select a suitable project, appraise it and mobilize the resources to start the enterprise.

(v) Strengthening and fulfilling motivation

EDPs arouse motivation among entrepreneurs through planned publicity of success stories of other entrepreneurs and through cultivating among them reading and observation. An entrepreneur is motivated to achieve or excel others. He is also motivated to influence others by his achievements to satisfy his ego. This is done through achievement motivation training.

(vi) Enhancing the organization and Managerial abilities

EDPs help the entrepreneurs to enhance their organizing and managerial capabilities to run their enterprises successfully. This is done through organizing educational, management training and orientation programmes specialized agencies such as the National Institute for Entrepreneurship and Small Business Development, New Delhi and Entrepreneurship Development Institute of India (EDII), Ahmedabad are engaged in entrepreneurial development programmes.

(vii) Assists in Setting up of the Enterprise

EDP helps an entrepreneur in setting up his enterprise. It is done through various support services which provide funds, machinery and equipment, scarce raw materials and infrastructural facilities such as land/shed, power etc.

(viii) Helps in acquainting and appreciating needed social responsibilities

An entrepreneur owes social responsibility towards the society. Earning profit cannot be the sole objective of an entrepreneur. He should acquaint himself with his social responsibilities towards, consumers, employees, Government, tax authorities in particular, environment protection, etc. Not only he should appreciate them but also discharge them honestly. EDP helps him in this process by identifying his social responsibilities.

(ix) Helps in knowing the pros and cons of being an entrepreneur

An entrepreneur should know the pros and cons of being an entrepreneur so that he can take a decision as to whether or not he would like to become an entrepreneur. It is particularly essential for an executive who wants to take a decision to stick to his job or to quit it to start his own enterprise. Again, an entrepreneur has to properly assess the risk involved in a venture. He should take only calculated and moderate risk.

(x) Helps in achieving entrepreneurial disciplines

Entrepreneurs also own a responsibility towards the society to observe certain discipline for ex, he should discharge his liabilities: (i) Pay taxes (ii) observe environmental laws, (iii) maintain ecology balance, (iv) regard dignity of labour.

## **2.14 RELEVANCE OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME**

An entrepreneurial development programme is relevant only if it proves fruitful to social, economic, political and legal environment of a country. Various researches conducted in and outside the country have shown that the countries which have implemented entire preneur development programmes have attained high economic growth in various fields as compared to those who have not done so. Economic development of a country never takes place by chance or accident, it has to be designed. It is a result of constant and positive efforts made by the Government and its agencies. Entrepreneurial development programmes search potential entrepreneurs and encourage them to establish business in backward areas which help in balanced regional growth. EDPs also encourage research and development which helps to establish new business in and outside the country.

## **2.15 ACHIEVEMENTS OF ENTREPRENEURIAL DEVELOPMENT PROGRAMME**

Entrepreneurial development programmes are the prerequisites for the overall economic development of a country. EDP is a process in which entrepreneurs are prepared to establish

develop and expand their business enterprise and face the business risks. Following are the major achievement of EDPs.

- (i) These programmes have played an important role in establishment development and expansion of the practice oriented development programmes. Training is an integral part of managerial and technical developments, and is essential for both old and new entrepreneurs. In India, almost all the training programmes conducted are organized and developed under EDPs. The steps taken by EDPs in this direction include (a) creation of necessary infrastructure (b) preparing training syllabus (c) designing tools and techniques for selection of trainees (d) identification of suitable and viable projects (e) specific training in technical trades etc.
- (ii) Entrepreneurial development programmes have also developed and established various support systems necessary for the entrepreneurs. They strengthen and coordinate these support systems. The major support systems are credit service and implementing institutions.
- (iii) Entrepreneurial development programmes have not only created a background for industrialization but have also given momentum to it.
- (iv) These programmes have contributed a lot to solve the problem of unemployment. EDPs have helped to a great extent in this direction by starting self employment programmes and by giving momentum to the speed of industrialization.
- (v) Another achievement of these programmes is establishment and development of new enterprises. It is very difficult task to establish and develop new enterprise in today's competitive era. EDPs have provided various inputs to establish new enterprises and also have instructed by developing various entrepreneurial skills and qualities, like farsightedness, imagination, patience, technical, knowledge etc.
- (vi) Entrepreneurial education and training has spread because of entrepreneurial development programs. This has resulted in increase in the knowledge, imaginative power, farsightedness, decision making ability and risk taking ability of the entrepreneurs and has also helped in developing personality.
- (vii) Entrepreneurial development programmes have also contributed in project formulation. Choosing a right type of project is a difficult task as resources are limited. The choice of a project requires detailed analysis of technical and financial aspects requires detailed analysis of technical and financial aspects. EDPs have proved very useful in such situation.
- (viii) Many entrepreneurship development institutions have been established because of the EDPs in India and abroad. For example, the major entrepreneurial development institute in India are: (a) Management development institute (b) National institute for entrepreneurship and

small business development (c) entrepreneurial development institute of India (d) small industry service institutes (e) small industries development organizations etc.

- (ix) Entrepreneurial development programmes have helped in balanced regional development by encouraging people to establish small industries in villages and background areas.
- (x) Another important achievement of EDPs is availability of cheap and quality products to the consumers. Due to EDPs new ventures have been established which have increased competition and the tendency of open market. As a result of it the products which were out of the reach of common man have reached him that too at cheaper rates. The standard of living has improved, national income has increased and the economic power has decentralized.

## **2.16 FINANCIAL INSTITUTIONS PROVIDING FINANCE TO ENTREPRENEURSHIPS AT NATIONAL LEVEL.**

Finance is the life blood of any enterprise. An entrepreneur has to assess his actual financial requirements before the establishment of his enterprise. As the small scale entrepreneurs do not have adequate amount of funds for establishing and running an enterprise, the Government of India has set up a number of institutions to provide financial assistance to small scale entrepreneurs. The various financial institutions which provide finance with the types of assistance to the entrepreneurs in the country are listed as follows :

- (i) Industrial Development Bank of India (IDBI)
  - (ii) Industrial Finance Corporation of India (IFCI)
  - (iii) Industrial Credit and Investment Corporation of India (ICICI)
  - (iv) Life Insurance Corporation of India (LIC)
  - (v) Unit Trust of India (UTI)
  - (vi) Small Industries Development Bank of India (SIDBI)
  - (vii) Industrial Reconstruction Bank of India (IRBI)
  - (viii) State Financial Corporation (SFC)
  - (ix) National Bank for Agriculture & Rural Development (NABARD)
  - (ix) EXPORT - IMPORT Bank (EXIMB)
  - (x) Regional Rural Banks (RRB)
  - (xii) National Industrial Development Corporation Ltd. (NIDC)
  - (xiii) Commercial Banks.
  - (xiv) Khadi & Village Industries Commission (KVIC).
- (i) Industrial Development Bank of India : Established on July 1, 1964 by the Government of India under the Act of Parliament, acts as the principal financial institution in the country. Initially,

it was a wholly owned subsidiary of Reserve Bank of India & in feb. 1976 it was made an autonomous organization & its ownership transferred to the Govt, of India from the RBI.

The objectives and function of IDBI are :

- (a) Provides assistance to the small scale sector through its scheme of refinance and bill rediscounting scheme.
- (b) The financial assistance has been indirect in the form of refinancing of loans granted by the commercial banks and the State Financial Corporations (SFCs)
- (c) In order to assist the small scale sector, IDBI has set up Small Industries Development Fund (SIDF) in may, 1986 aiming at providing a focal point to co-ordinate financial and non-financial inputs required for growth of small industries sector.
- (d) Constitution of National Equity Fund (NEF) to prevail equity type of support to tiny and small scale units engaged in manufacturing activities in association with the govt, of India and administered through nationalized banks.
- (e) Introduction of the single window assistance scheme for grant of term loan and working capital assistance to small, tiny & medium scale enterprises.
- (f) Setting up of a Voluntary Executive Corporation Cell (VECI) for utilizing the services of experts professionals for counseling small units and for providing consultancy support in specified areas.
- (g) To undertake market and investment research in connection with the development of industry,
- (h) To provide technical and administrative help for promotion, management and expansion of industry.
- (ii) Industrial Financial Corporation of India :

Established in July 1984 under IFCI Act by the Government of India and brought under Companies Act, 1956 to provide long term finance to industries is the oldest financial institution covering large scale industries. It has devised new promotional schemes such as :

- (a) Consultancy fees subsidy schemes for assisting small scale entrepreneurs in marketing sector.
- (b) Interest subsidy scheme for unemployed youth, women entrepreneur etc;
- (c) Pollution control in small and medium scale enterprises.
- (d) Encouraging the modernisation of tiny, small & medium scale industries.
- (iii) Industrial Credit and Investment Corporation of India Ltd.:

Established as a private sector development bank by the Govt. of India under the Indian Companies Act in 1955, it was set up with the objective of providing financial assistance to



the small and medium scale sector. It also assists in the creation, expansion & modernization of private enterprises.

- (iv) Life Insurance Corporation of India (LIC) : Established under the LIC Act in 1956, offers multitude of insurance policies to extend social security to various segments of the society. As per its investment policy, it invests 75 percent and above in central & state Government's securities including government guaranteed marketable securities & in the socially oriented sector. It extends loans-for the following activities also:
  - (a) Housing,
  - (b) Rural electrification,
  - (c) Water supply & sanitation,
  - (d) Expansion, diversification of industrial ventures,
  - (e) Modernization of industry etc.
- (v) Unit Trust of India : Set up by the Govt. of India in 1964 under an Act of Parliament with the objective of:
  - (i) Mobilizing savings of small investors through sale of units and,
  - (ii) Channelizing these savings towards corporate investment. It also provides financial assistance to corporate sector in the form of term loans and underwriting direct subscription to shares and debentures.
- (vi) Small Industries Development Bank of India : (SIDBI)  
Established in the year 1989 as a subsidiary of IDBI to provide financial assistance to the units in small sector in the form of indirect assistance and direct assistance. The initial authorized capital of SIDBI was Rs 250 crores which can be extended upto Rs.1000 crores. Its main functions include promotion of small scale industries in semi-urban areas to create more employment opportunities, undertaking technological upgradation & modernization of existing small scale industries & expansion of channels for marketing the products of SSI sector on both domestic & international markets.
- (vii) Industrial Reconstruction Bank of India : Set up in 1971 under the Indian Companies Act to act as an agency to rehabilitate the sick units, was renamed as IRBI (from IRCI-Industrial Reconstruction Corporation of India) in 1984 by an Act of Parliament, Presently, it acts as a reconstruction agency to revive, reconstruct & rehabilitate the sick industrial concerns.
- (viii) State Financial Corporations : In order to cater to the needs of the small scale units, the Government of India passed the State Financial Corporation Act in 1951 under which the State Financial Corporations were set up. State Financial Corporations are managed by a Managing Director, Board of Directors and the Executive Committee which is headed by a Chairman. Its main functions includes advancing term loans to small scale & medium scale

industrial units, granting loans to industrial concerns repayable within period not exceeding 20 yrs & providing financial assistance to small road transport operators, tour operators, hoteliers, hospitals & nursing homes etc.

- (ix) National Bank of Agriculture and Rural Development (NABARD) : Set up to operate as an apex bank in agriculture, it meets its loan requirements by drawing funds from the central government, the World Bank & other agencies. Its main functions include acting as a refinancing institution to advance loans to agriculture, small scale industries, cottage and village industries, providing financial assistance to handicrafts sector, rural artisans, agriculturists, farmers and entrepreneurs engaged in allied non-farm sector activities and organizing-entrepreneurship development-programme skill-upgradation programmes for tiny, small & medium scale entrepreneurs, workshops and seminars to promote integrated rural development both in agriculture & industrial sectors.

- (x) EXPORT-IMPORT Bank of India :

Established in the year 1982 by an Act of Parliament it took over the export loans & guarantee portfolio of IDBI. The important functions of EXIM Bank includes advancing financial assistance to exporters & importers and to boost India's export promotion strategy. It has also introduced the following programmes:

- (i) Export bills rediscounting.
  - (ii) Technology & consultancy.
  - (iii) Financing & relending facility to banks abroad.
- (xi) Regional Rural Banks : Inaugurated on 2nd Oct 1976, with the objective of providing financial credit needs of the small & marginal farmers, rural artisans, agricultural labourers, small & tiny entrepreneurs. It also provides financial assistance to small entrepreneurs for development of trade, commerce, industries, agriculture and other allied economic activities in rural areas.
- (xii) National Industrial Development Corporation Ltd. : Established in the year 1954 with the objective of bringing about a balanced development of industries both in private and public sectors, also aims to promote small and medium scale industries. Its main functions includes extension of financial assistance for rehabilitation and modernisation of industries like cotton textiles, jute industry and machine tools industry & conducting industrial potential survey and seeks cooperation from private entrepreneurs to establish more industries in private sector.
- (xiii) Commercial Banks : They assist in providing finance to the entrepreneurs. In general, commercial banks provide short-term loans in the shape of working capital to the small

entrepreneurs but with the development of industries, these banks have become more interested in advancing long-term finance to the entrepreneurs,

- (xiv) Khadi & village industries commission : It is a statutory body established by an Act of Parliament in April, 1957 with the objective of generating employment avenues for rural unemployed people through its different schemes such as Gramodyog Rojgar Yojana, to develop entrepreneurship ability among the rural unemployed, mobilizing bank finance for the entrepreneurs looking to the limited resources of KVIC & bringing about regional balance in assisting cottage & village industries.

## **2.17 INSTITUTIONAL SUPPORT TO SMALL ENTREPRENEURS NATIONAL SMALL INDUSTRIES CORPORATION LTD. (NSIC)**

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

- To provide machinery on hire-purchase scheme to small scale industries.
- To provide equipment leasing facility.
- To help in export marketing of the products of small scale industries.
- To participate in bulk purchase programme of the Government.
- To develop prototype of machines and equipments to pass on to small scale industries for commercial production.
- To distribute basic raw material among small scale industries through raw material depots.
- To help in development and upgradation of technology and implementation of modernization programmes of small scale industries.
- To impart training in various industrial trades.
- To set up small scale industries in other developing countries on turnkey basis.
- To undertake the construction of industrial estates.

## **SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)**

Small Industries Development Organisation (SIDO) is a subordinate office of the Department of SSI & ARI. It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programmes for promotion and development of small-scale industries. Development Commissioner is the head of the SIDO. He is assisted by various directors and advisers in evolving and implementing various programmes of training and management consultancy, industrial investigation, possibilities for development of different types of small-scale industries, development of industrial estates, etc. The main functions of SIDO are

classified into (i) co-ordination, (ii) industrial development, and (iii) extension. These functions are performed through a national network of institutions and associated agencies created for specific functions at present. The SIDO functions through 27 offices, 31 Small Industries Service Institutes (SISI), 37 Extension Centres, 3 Product-cum-Process Development Centres, and 4 Production Centres.

All small-scale industries except those falling within the specialised boards and agencies like KVIC, Coir Boards, Central Silk Board, etc. fall under the purview of the SIDO.

Let us have a look at the main functions performed by the SIDO in each of its three categories of functions.

#### **FUNCTIONS RELATING TO CO-ORDINATION**

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

#### **FUNCTIONS RELATING TO INDUSTRIAL DEVELOPMENT**

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

#### **FUNCTIONS RELATING TO EXTENSION**

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

#### **SMALL SCALE INDUSTRIES BOARD (SSIB)**

The Government of India constituted a Board, namely, Small Scale Industries Board (SSIB) in 1954 to advise on development of small scale industries in the country. The SSIB is also known as Central Small Industries Board. The range of developmental work in small scale industries

involves several departments/ministries and several organs of the Central/State Government. Hence, to facilitate co-ordination and inter-institutional languages, the Small Scale Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the development of small-scale industries.

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

### **STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDC)**

The State Small Industries Development Corporations (SSIDC) were set up in various States under the Companies Act, 1956, as State Government Undertakings to cater to the primary developmental needs of the small, tiny and village industries in the State/Union Territories under their jurisdiction. Incorporation under the Companies Act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.

The important functions performed by the SSIDCs include:

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

### **SMALL INDUSTRIES SERVICE INSTITUTES (SISIs)**

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

The main functions of SISIs include:

- To serve as interface between Central and State Governments.
- To render technical support services.
- To conduct Entrepreneurship Development Programmes.
- To initiate promotional programmes.

The SISIs also render assistance in the following areas:

- (i) Economic Consultancy/Information/EDP Consultancy.
- (ii) Trade and market information's.
- (iii) Project profiles.
- (iv) State industrial potential survey.
- (v) District industrial potential surveys.
- (vi) Modernisation and in plant studies.
- (vii) Workshop facilities.
- (viii) Training in various trade/activities.

### **DISTRICT INDUSTRIES CENTRES (DICS)**

The District Industries Centres (DICS) programme was started on may 8, 1978 with a view to provide integrated administrative framework at the district level for promotion of small-scale industries in rural areas. The DICS are envisaged as a single window interacting agency with the entrepreneur at the district level. Services and support to small entrepreneurs are provided under a single roof through the DICS. They are the implementing arm of the Central and State Governments of the various schemes and programmes. Registration of small industries is done at the district industries centres. The SEEUY/PMRY for employment generation is also implemented by the DICS.

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

### **FUNCTIONS:**

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

- To conduct industrial potential surveys keeping in view the availability of resources in terms of material and human skill, infrastructure, demand for product, etc. To prepare techno-economic surveys and identify product lines and then to provide investment advice to entrepreneurs..
- To prepare an action plan to effectively implement the schemes identified
- To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for procuring imported machinery, if needed, assessing requirements for raw materials etc.
- To appraise the worthiness of the various proposals received from entrepreneurs.

- To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarisation and export promotion of their products.
- To undertake product development work appropriate to small industries.
- To conduct artisan training programmes.
- To function as the technical arms of DRDA in administering IRD and TRYSEM programmes.

### **FUNCTIONS OF DIC**

- To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to Government Departments.
- To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojagar Yojana).
- To help the specialized training organizations to conduct entrepreneur development programmes.

In a nut shall, DICs function as the torch-bearer to the beneficiaries / entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So, the role of DICs in enterprise building and developing small scale sector is of much significance.

### **INDUSTRIAL ESTATES**

Industrial estates are yet another institutional measure to promote industrialization in the country. In India, industrial estates have been utilized as an effective tool for the promotion and growth of small-scale industries. They have also been used as an effective tool to decentralize industrial activity to rural and backward areas. Industrial estates are also known by different names, e.g., industrial region, industrial park industrial area, industrial zone, etc. Let us consider a few definitions on industrial estates given by different authors and agencies.

According to RC. Alexander, an industrial estate is a group of factories, constructed on an economic scale in suitable-sites with facilities of water, transport, electricity, steam, bank, post office, canteen, watch and ward and first-aid, and provided with special arrangements for technical guidance and common service facilities.

In the opinion of Bredo, an industrial estate is a tract of land which is sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises.

The United Nations has defined an industrial state as “a planned clustering of enterprises offering standard factory buildings erected in advance of demand and variety of services and facilities to the occupants.”

Thus, an industrial estate is a place where the required facilities and factory accommodation are provided by the Government to the entrepreneurs to establish their industries there.

## **TYPES OF INDUSTRIAL ESTATES**

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

1. On the Basis of Functions: On the basis of functions, industrial estates are broadly classified into two types: (i) General type industrial estates, and (ii) Special type industrial estates.

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

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

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

- (i) Government Industrial Estates,
- (ii) Private Industrial Estates,
- (iii) Co-operative Industrial Estates and
- (iv) Municipal Industrial Estates.

3. On the Basis of Other Variants: On the basis of other variants, industrial estates are classified into following types:

- (i) Ancillary Industrial Estates: In such industrial estates, only those small-scale units are housed which are ancillary to a particular large industry. Examples of such units are like one attached to the HMT, Bangalore.
- (ii) Functional Industrial Estates: Industrial units manufacturing the same product are usually housed in these industrial estates. These industrial estates also serve as a base for expansion of small units into larger units.
- (iii) The Workshop-bay: Such types of industrial estates are constructed mainly for very small firms engaged in repair work.

## **OBJECTIVES OF INDUSTRIAL ESTATES**

The main objectives of the establishment of industrial estates are:

- (i) To provide infrastructure and accommodation facilities to the entrepreneurs;
- (ii) To encourage the development of small-scale industries in the country;
- (iii) To decentralize industries to the rural and backward areas;
- (iv) To encourage ancillarisation in surrounding major industrial units; and
- (v) To develop entrepreneurship by creating a congenial climate to run the industries in these estates/areas/townships, etc.



## INDUSTRIAL ESTATES IN INDIA

One of the major handicaps faced by small-scale industries in India has been either lack or insufficient infrastructure facilities. In order to provide small-scale units the readymade buildings/factory sheds at subsidised rates, infrastructure facilities and the proximity of other industrial units, the idea of establishing industrial estates was first adopted in India by the Small-Scale Industries Board (SSIB) at its meeting held in January 1955. As a result, the first industrial estate in India was set up at Rajkot in Gujarat in September 1955. Since then, there is no looking back. By now, the number of industrial estates in the country had gone up to more than 650—making it the largest programme of its kind in the world.

The objectives tagged to the programme included to give a boost to the growth of small-scale industries in the country, to disperse industry outside the metropolitan towns, to relocate existing units operating in congested areas, to provide sub-contracting opportunities to small industry and to improve operational efficiency of small units through common facilities. However, studies report findings contrary to it. The outside units have performed better than units working inside the industrial estates. The reasons held responsible for poor performance of industrial units working inside the industrial estates were:

- Lack of essential infrastructure facilities such as roads, power and water.
- Lack of common facilities such as a tool room, heat treatment, or testing.
- Lack of realistic survey prior to the establishment of the estate.
- Lack of a clear idea about the relevance of products to the area.
- Lack of local involvement and active participation in the programme.

Added to these problems was that the most of the estates were general purpose estates' in diverse product groups having no organic relationship between them. As such, the possibility of establishing common production facilities was highly limited. Hence, in order to forge organic relationship between them, the Industrial Estate Programme was modified on two counts. Firstly, the estates were set up on a functional basis in specific product areas like electronics, leather and rubber or as ancillary to a present unit—such as HMT (Bangalore), BHEL (Bhopal) or ECIL (Hyderabad) etc. Secondly, in the matter of funding, the estates became either co-operatives or the Government merely developed land and the entrepreneur has to build his shed according to an approved type design.

Now, how to make this noble programme more effective to boost the growth of small-scale industry in the country? An industrial estate alone cannot create industry. It is not a magic wand. The following factors, according to a survey conducted by UNIDO, are essentials to make the industrial estate programme effective in developing countries including India:

- Existence of a large number of small firms or artisan shops in appropriate industrial sectors;
- Entrepreneurs willing and able to take advantage of the facilities offered by the industrial estates;
- A nucleus of skilled workers;
- Government agencies with skills and funds to plan and administer the programme. Financial institutions willing to give credit to the units; and
- Availability of adequate infrastructure in terms of water, electricity and transport.

## **2.18 SPECIALISED INSTITUTIONS**

In addition to the above institutions, the Government has also set up the following specialized institutions to boost the growth of all types of small-scale industries in the country:

### **(i) Central Institute of Tool Design, Hyderabad**

The Central Government set up this Institute in 1968 with the help of UNDP and ILO to help small-scale industries by imparting specialized training to the personnel working in the design and manufacture of tools, jigs, fixtures, dies and moulds. The other functions performed by it are:-

- (a) To offer consultancy and advisory services and assistance in the design and development of tools.
- (b) To suggest proper measures to improve the standard of tools, tooling elements, jig components, fixtures, dies etc.
- (c) To offer the needed tool room facility.

A governing council which consists of representatives of the Government and industry is constituted to look after the management of the Institute. The governing council is headed by the Development Commissioner (SSI).

### **(ii) Central Tool Room Training Centres**

In order to provide tool room services and facilities in design, manufacture and training, the Government has set up four tool room framing centres located at Bangalore, Calcutta, Ludhiana and New Delhi.

### **(iii) Central Institute of Hand Tool, Jalandhar**

This institute has been set up with a view to provide improved technology, raw materials, design and testing for handloom industry. This is the only institute of its kind in the country located at Jalandhar.

### **(iv) Institute for Design of Electrical Measuring Instruments (IDEM), Mumbai**

This institute was set up in 1969 with the assistance from UNDP. It was set up to provide technical consultancy services in the matters relating to design and development of electrical and electronic instruments, tool designing and fabrication and training.

- (v) National Institute of Entrepreneurship and Small Business Development (NISEBUD), New Delhi

It is an apex national level institute of its kind set up at New Delhi in 1983. Its main functions are to coordinate research and training in entrepreneurship development and to impart specialised training to various categories of entrepreneurs. Besides, it also serves as a forum for interaction and exchange of views between various agencies engaged in activities relating to entrepreneurial development.

- (vi) National Institute of Small Industries Extension Training (NISIET), Hyderabad

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

- (a) To impart training to the persons engaged in small-scale industries.
- (b) To undertake research studies relating to development of small-scale industries.
- (c) To enter into agreements relating to consultancy services both with national and international organisations to provide consultancy services to small industries in the country.

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

- (vii) Other Institutes

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

- (a) Electronic Training and Service Institute, Nainital.
- (b) Central Machine Tools Limited, Bangalore.
- (c) Sports Goods and Leisure Time Equipment, Meerut.
- (d) Central Institute of Plastics Engineering and Tools, Madras.
- (e) National Institute of Foundry and Forging Technology, Ranchi.

### **TECHNICAL CONSULTANCY ORGANISATIONS (TCOs)**

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

- 1. Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).
- 2. Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO).
- 3. Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO).
- 4. Haryana-Delhi Industrial Consultants Ltd. (HARDICON).
- 5. Himachal Consultancy Organisation Ltd. (HIMCO).

6. Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT).
7. Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KTTCO).
8. Karnataka Industrial and Technical Consultancy Organisation Ltd. (KITCO).
9. Madhya Pradesh Consultancy Organisation Ltd. (MPCON).
10. Maharashtra Industrial and Technical Consultancy Organisation Ltd. (MITCON).
11. North-Eastern Industrial Consultants Ltd. (NECON).
12. North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO).
13. North-India Technical Consultancy Organisation Ltd. (NITCON).
14. Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCON).
15. Rajasthan Consultancy Organisation Ltd. (RAJCON).
16. U.P. Industrial Consultants Ltd. (UPICO).
17. West Bengal Consultancy Organisation Ltd. (WEBCON).

## **FUNCTIONS**

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

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

### **2.19 INSTITUTIONAL SUPPORT FOR EDP**

The following institutions were set up by the central and state governments.

#### **(a) Institutions set up by Central Government**

1. Small Industries Development Organization (SIDO): SIDO was established by the Central Government in 1954. It has 27 Small Industries Service Institutes, 31 Branch Institutes, 38 Expansion Centres, 4 Regional Training Centres, 20 Local Testing Centres, 4 Product-coprocess Centres, 2 Shoe Training Centres and 4 production Centres. In addition to provide services in these area, SIDO is also engaged in providing training to the entrepreneurs.

2. Management Development Institute (MDI): Management Development Institute is located at Gurgaon (Haryana). It was established in 1973 and is sponsored by Industrial Finance Corporation of India with the objective of improving managerial effectiveness in the industry. It conducts management development programmes in various fields. It also includes the programmes for the officers of Indian Administrative Services (IAS), Indian Economic Services (IES) and for the officers of a number of public sector undertakings like Bharat Heavy Electrical Ltd. (BHEL), Oil and Natural Gas Commission (ONGC), Bharat Aluminum Company Ltd. (BALCO), Export-Credit Guarantee Corporation of India (ECOC), Hindustan Zinc Ltd. (HZL), Hindustan Machine Tool Ltd. (HMT) and many leading PSU's.
3. Entrepreneurship Development Institute of India (EDII) : EDII is sponsored by All India Financial Institutions and the Government of Gujarat. It conducts research, training and institution building activities to encourage participation of backward regions and special target-groups in entrepreneurship. The training programmes of EDII consist of:
  - (a) Selection of potential entrepreneurs,
  - (b) Providing achievement motivation training,
  - (c) Selection of the product and preparation of project report,
  - (d) Training for business management,
  - (e) Practical training and work experience,
  - (f) Support system and follow up.

The programmes of Entrepreneurship Development Institute of India are the oldest, largest, best organised and most comprehensive in the country.

4. All India Small Scale Industries Board (AISSIB): Established in 1954, the AISSIB determines the policies and programmes for the development of small industries with a Central Government Minister as its president and the representatives of various organisation i.e., Central Government, State Government, National Small Industries Corporation, State Financial Corporation, Reserve Bank of India, State Bank of India, Indian Small Industries Board, Non-government members, such as members of Public Service Commission, Trade and Industries Members.
5. National Institution of Entrepreneurship and Small Business Development (NIESBUD), New Delhi: It was established in 1983 by the Government of India. It is an apex body to supervise the activities of various agencies engaged in entrepreneurial development programmes.

It is a society under Government of India Societies Act of 1860. When there is absence of organization conducting new EDPs it assumes the task. The major activities of Institute are:

- (a) To evolve effective training strategies and methods,
- (b) To formulate scientific selection procedures,
- (c) To standardize model syllabi for training,
- (d) To develop training aids, tools and manuals,
- (e) To provide facilities and other support agencies engaged in EDPs,
- (f) To conduct EDPs which are not undertaken by other agencies,
- (g) To evaluate the benefits of EDPs and promoting the process of entrepreneurial development,
- (h) To conduct workshops, seminars, conferences etc.,
- (i) To help and support various Governments and other agencies in executing entrepreneur development programmes,
- (j) To undertake research and development in the field of EDPs.

#### FUNCTIONS OF THE INSTITUTE

- (i) To evolve effective training strategies and methodology,
  - (ii) To formulate scientific selection procedures,
  - (iii) To standardize model syllabi for training various target groups,
  - (iv) To develop training aids, manuals and other tools,
  - (v) To facilitate and support agencies engaged in entrepreneurship development,
  - (vi) To conduct such programmes which are not undertaken by other agencies,
  - (vii) To measure their benefits and accelerating the process of entrepreneurial development,
  - (viii) To organise all those activities that help and develop entrepreneurship culture in society,
  - (ix) To undertake documentation and research in the field of entrepreneurship and small business development,
  - (x) To conduct workshops, seminars and conferences, etc., for entrepreneurship development,
  - (xi) To assist in setting up of regional and state level training institutes for entrepreneurship and small business development.
6. National Institute of Small Industries Extension Training: It was established in 1960 with its headquarters at Hyderabad. The main objectives of National Institute of Small Industries Extension Training are:
- (a) Directing and Coordinating syllabi for training of small entrepreneurs,
  - (b) Advising on managerial and technical aspects,
  - (c) Organizing seminars for small entrepreneurs and managers,
  - (d) Providing services regarding research and documentation.
7. National Small Industries Corporation Ltd. (NSIC): The NSIC was established in 1955 by the Central Government with the objective of assisting the small industries in the

Government purchase programmes. The corporation provides a vast-market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

8. Risk Capital and Technology Finance Corporation Ltd (RCTFC): RCTFC was established in 1988 with an authorized capital of 15 crore rupees. The main objectives of RCTFC are provision of risk capital for the extension and expansion of entrepreneurial development and venture capital for the projects with high techniques for technology development and transfer.

9. National Research and Development Corporation (NRDC): NRDC was established in 1953 under Department of Science and Industrial Research under Government of India. Its main objectives are:

- (i) Providing assistance in technology transfer,
- (ii) Transfer of technology,
- (iii) Establishing relations with various technology institutions and collecting various indigenous techniques developed by them.

At present there are 29 training centres of the Corporation in India.

10. Indian Investment Centre: This is an autonomous organization established by Central Government. Its main objective is to assist in promoting foreign cooperation with Indian entrepreneurs and providing necessary information to foreign entrepreneurs. Indian Investment Centre has also established Entrepreneurship Consultancy Institute with the objective of identifying useful projects. In addition this Institute helps entrepreneurs in preparation of project, selection of proper place and necessary financial assistance.

11. Khadi and Village Industries Commission (KVIC): Khadi and Village Industries Commission was established by an Act of Parliament in 1956. It is a service organization engaged in promotion and development of Khadi and Village Industries in rural areas. Its main objectives are:

- (i) Providing employment in rural areas
- (ii) Improvement of skills
- (iii) Rural Industrialization
- (iv) Transfer of technology
- (v) Building strong rural community base and self reliance among rural people.

12. Indian Institute of Entrepreneurship (IIE) : It was established by the Department of Small Scale Industries and Agro and Rural Industries in 1953. It is an autonomous organization with its headquarters at Guwahati. Its main objective is to undertake research, training and consultancy activities in the field of small industry and entrepreneurship.

13. National Alliance of Young Entrepreneurs (NAYE) : It has sponsored a number of entrepreneurial development schemes in collaboration with various public sector banks. The main object of the scheme is to encourage young entrepreneurs to explore investment and self-employment opportunities. It arranges for their training and assists them in procuring necessary finance. In 1975 NAYE also set up a Women's wing. It has been a pioneer in promotion and development of young entrepreneurs in general and the women entrepreneurs in particular. To make women self-reliant and to raise their status NAYE has organised a number of National and International conferences.
14. Centre for Entrepreneurial Development (CED) Ahmedabad : It was sponsored by the Government of Gujarat and public financial institutions operating in the state. It conducts entrepreneurial development programmes at various centres. The important features of these training programmes are:
  - (i) Training programmes were conducted after a survey for opportunities was made.
  - (ii) Appropriate linkage was established with supporting agencies supplying finance, factory sheds, raw materials, etc.
  - (iii) Behavioural tests were conducted to select the entrepreneurs.
  - (iv) Training programmes covered theoretical and practical aspects.
  - (v) Full time project leader took follow up action after the training was over.
15. Institute for Entrepreneurial Development (IED): It was set up by the IDBI in association with other financial institutions, public sector banks and the State Governments. The IEDs were set up to fulfill the entrepreneurial development needs of the industrially backward states in the country. IEDs have been set up in a few states where IEDs have conducted a number of EDPs on subjects such as motivation, business opportunities, entrepreneurial awareness programme and project counselling for women.
16. Technical Consultancy Organization (TCOs) : A network of TCOs has been established by All India Financial Institutions and State Government throughout the country. These organizations have been set up with the objective of providing a comprehensive package of services to entrepreneurs in general and to small business entrepreneurs in particular. Their main functions include the following:
  - (a) Identifying potential industrial projects.
  - (b) Preparing project reports, feasibility reports and pre-investment status.
  - (c) Identifying potential entrepreneurs.
  - (d) Providing technical and administrative support.
  - (e) Conducting techno-economic studies of the projects.
  - (f) Conducting market research and surveys.



- (g) Acting as industrial management and financial consultant.
- (h) Helping entrepreneurs in technology up gradation, modernization and rehabilitation of sick units.
- (i) Maintaining data bank and information cell to provide information for entrepreneurial development.
- (j) Rendering advice to set up laboratories and design centre,
- (k) Rendering assistance for setting up and organizing machine tool shops, workshops and standardization units. The major thrust of TCOs has been in the field of project identification and project formulation.

The TCOs also take keen interest in marketing and motivation development programmes for the entrepreneurs.

17. **Public Sector Banks:** Public sector banks in association with NAYE have been conducting entrepreneurial development programmes. The main thrust of these banks has been to identify potential entrepreneurs in rural and backward areas. For example,. Punjab National Bank started entrepreneurial assistance programme in March 1977 in the states of West Bengal and Bihar. Similarly, Bank of India started entrepreneurial assistance programme since August 1972 in the states of Punjab, Rajasthan, Himachal Pradesh, J&K and the Union Territories of Chandigarh and Delhi.

These banks have been rendering assistance to potential entrepreneurs in various forms. The important forms of entrepreneurial assistance are:

- (i) Identifying potential entrepreneurs.
- (ii) Identifying viable projects.
- (iii) Assisting in preparation of project profiles.
- (iv) Helping in project evaluation.
- (v) Arranging practical training.
- (vi) Assisting in the procurement of machinery and equipment.
- (vii) Financing the projects.

18. **Miscellaneous Organizations:** In addition to above, various organizations at all India level are assisting and are engaged in entrepreneurship development. These include ICICI, IFCI, IDBI, UTI, IDBI, IIBI etc.

- (b) **Institution set up at State Level**

There are a number of institutes established at state level for organizing, developing, assisting and making successful entrepreneurial development programmes. Prominent among these are :

1. Small Industries Service Institutes (SISI),
2. State Financial Corporations (SFC),.
3. State Small Industries Corporations (SSIC),
4. District Industries Centres (DIC),
5. Technical Consulting Organization Ltd. (TCO),
6. Industries Directorates,
7. Commercial and Cooperative Banks,
8. State Industrial Development Corporations,
9. Industrial Estates,

## **2.20 SUMMARY**

Entrepreneurship environment refers to the various positive and negative constraints within which various enterprises are required to operate. The environment especially the external environment is highly dynamic. It keeps on changing and affects different organizations to a varying extent.

Entrepreneurial development programme plays very important role in the development of business and industry. EDPs are based on the thinking that the attitude of people can be changed by developing their skill, so that they can convert their ideas into an organization.

The process of industrial development require the participation of large number of people engaged in various innovative entrepreneurial activities. One of the obstacles in such development is finance which becomes the primary duty of the govt, to provide. Such finance is made available by setting up financial instructions all over the country.

Entrepreneurs play an important role in the economic growth of a nation. Entrepreneurs act as innovator, generator of employment, supplement and complement of economic growth and bring social stability.

## **2.21 SELF ASSESSMENT QUESTIONS**

1. Define Entrepreneurial Environment
2. Discuss various Environmental factors
3. Discuss socio-economic environment in the emergency of entrepreneurship.
4. Explain entrepreneurial development programme.
5. What are the problems in the conduct of EDP?
6. Define role, relevance & achievement of entrepreneurial development programme.
7. What are the institutional support to EDP?
8. What are the financial institutions established to provide finance to the entrepreneurship in national level?
9. What are the suggestions to move EDP successful?
10. What are the needs for EDP?

## **UNIT-3**

### **PROJECT APPRAISAL AND MANAGEMENT**

#### **AIMS AND OBJECTIVES**

After going through this chapter you will be able to understand:-

- Sources of business ideas.
- Techniques for generating new ideas.
- What is project
- Project identification and formulation
- Project appraisal
- Profit analysis
- Risk analysis
- Sources of Finance

#### **CONTENTS**

- 3.1 Introduction to business ideas
- 3.2 Sources of business ideas
- 3.3 Idea and information sources
- 3.4 Techniques for generating new ideas.
- 3.5 Meaning of Project
- 3.6 Project classification
- 3.7 Project identification
- 3.8 Meaning and Significance of Project Report
- 3.9 Contents of Project Report
- 3.10 Formulation of project report
- 3.11 Planning Commission Guidelines
- Project Appraisal
- 3.12 Meaning and definition
- 3.13 Identification of Opportunity
- 3.14 Project feasibility study
- 3.15 Introduction to profit
- 3.16 Meaning and nature of profit.
- 3.17 Theories of Profit
- 3.18 Depreciation
- 3.19 Profit Planning and Forecasting
- 3.20 Cost volume-profit analysis
- 3.21 Objectives of cost-volume-profit analysis
- 3.22 Profit volume (P/V) ratio
- 3.23 Break even analysis
- 3.24 Risk analysis
- 3.25 Type or kinds of risks
- 3.26 Methods of Risk analysis
- 3.27 Criteria for evaluating proposal to minimise risk
- 3.28 Sources of finance
- 3.29 Summary
- 3.30 Self Assessment Questions

# PROJECT APPRAISAL AND MANAGEMENT

## 3.1 INTRODUCTION BUSINESS IDEAS

Every business needs a good business idea. It is the idea which can help them to move in the right direction. The success and failure of a business depends on its business ideas. If the idea of a business is good, the business will survive otherwise it will fail in the market of competition. Good business ideas, if introduced at the right time, can make a business very successful. The ability to come up with a good business idea can be transformed into a viable business.

## 3.2 SOURCES OF BUSINESS IDEAS

There are many sources of business ideas. The most important sources of business idea have been discussed below:-

### (A) PRIMARY SOURCES OF BUSINESS IDEAS

**1. Hobbies:** While having fun at what they enjoy doing, many people have started businesses. Converting hobbies into money making opportunities has worked for many entrepreneurs. For instance, if you love to travel, perform arts or into hospitality you can look at starting a business venture in the tourism sector. Examples of hobbies that make money include sports, cooking, piano playing, photography etc.

**2. Self Experience:** Many investors find it convenient to choose business ideas in line with their background. This because of them understands the terrain better. More than half of business ideas come from experiences at work place only. A survey of entrepreneurs found that most of the new start-up companies are involved in industries where they had significant work experience. The personal contacts and domain expertise developed on the job have proven to be valuable to many individuals who contemplated launching a business of their own. Anybody who intends to start a business in a new industry are therefore, encouraged to firstly becoming an "apprentice" for a suitable period of time. By doing this he could avoid costly mistakes and the same time be able to assess whether he enjoy the work before making a serious financial commitment.

**3. Mass Media:** The Mass Media is also a platform for the generation and sources of business ideas in the following ways:

- (a) Study commercial advertisements on business needs and sales of entire business.
- (b) Extract information from reports on changes in fashions or consumer needs *e.g* healthy eating, weight loss, etc.
- (c) Sieve through advertisements for popular skills demanded *e.g* security, catering, web design.

**4. Exhibitions:** If we take time to study most exhibitions, we would be able to discover the nature of new products and re-branding ideas of existing products. Through talking with sales representatives, manufacturers and end users, we will be able to find a gap to fill to start our own business.

**5. Surveys:** Surveys can either be done online or offline. Talking to neighbours, co-workers and family members about a particular product or service is a form of informal survey. The essence of carrying out surveys is to gather complaints from dissatisfied customers of new and existing products. We will be able to

generate new ideas to fine-tune our own investment so as to include improvements and changes most people would like to see.

**6. Complaints:** Anytime we hear a customer complaint about a product such as; I wish there was....., if they had....etc., there lies an idea for investment. We can either set up competitor business with such firms offering a better product or sell that idea/product for improvement to the company directly. Talk to people, read comment and reviews on blogs and browse popular forums to gather complaints about that product. Complaint is one of the most practical primary sources of business ideas.

**7. Brainstorming:** Brainstorming involves using creative thinking to generate business ideas to solve problems. The first step is to identify a problem or question and then Brainstorming is a technique of creative problem-solving as well as for generating ideas. The overall idea is to come up with solutions as many as possible. When looking for sources of ideas for new business start ups, through brainstorming you should avoid criticizing the ideas of others on our team, allow even the wildest of ideas, allow large number of contributions and don't hesitate to merge and improve upon other people's suggestions.

## **(B) SECONDARY SOURCES OF BUSINESS IDEAS**

**1. Consumers:** Potential entrepreneurs should continually pay close attention to potential customers. This attention can take the form of informally monitoring potential ideas and needs or formally arranging for consumers to have an opportunity to express their opinions. Care needs to be taken to ensure that the idea or need represents a large enough market to support a new venture.

**2. Existing Products and Services:** Potential entrepreneurs and intrapreneurs should also establish a formal method for monitoring and evaluating competitive products and services on the market. Frequently, this analysis uncovers ways to improve on these offerings that may result in a new product or service that has more market appeal.

**3. Existing Distribution Channels:** Members of the distribution channels are also excellent sources for new ideas because of their familiarity with the needs of the market. Not only do channel members frequently have suggestions for completely new products, but they can also help in marketing the entrepreneur's newly developed products. One entrepreneur found out from a sales clerk in a large departmental store that the reason his hosiery was not selling was its colour. By heeding the suggestion and making the appropriate colour changes, his company became one of the leading suppliers of non-brand hosiery in that region of the United States.

**4. Government and Industrial Policies:** The Government and Industrial policies can be a source of new product ideas. New product ideas can come in response to Government regulations and new industrial policies. The files of the patent office contain numerous new product possibilities. Although the patents themselves may not be feasible, they can frequently suggest other marketable product ideas. Several Government agencies and publications are helpful in monitoring patent applications.

**5. Research and Development:** The largest source of new ideas is the entrepreneur's own "research and development", efforts, which may be a formal endeavour connected with one's current employment or

informal lab in a basement or garage. The research and development wing of the enterprise will continue the research to find the suitable products according to the need and requirement of the customers.

### **3.3 IDEA AND INFORMATION SOURCES**

#### ***(B) Periodicals and Technical Reports***

**1. Trade Magazines:** There are a number of trade magazines that cover general design issues or are targeted at a specialized technical field. These magazines are often a source of solutions for current problems. Besides the articles in these magazines, the advertisements can provide a fruitful source of ideas. As it is difficult to pinpoint specific information in trade magazines, it is a good practice to make a habit of regularly reading or at least scanning these publications so that information can be located when required.

**2. Research Journals:** Research journals directly related to the specific area of the problem which is to be solved may provide modelling and analysis of specific problems as well as more general information that can lead to a design solution. Examples of these journals are Journal of Engineering Design, ASME Journal of Heat Transfer, and Artificial Intelligence in Engineering, Design and Manufacturing etc.

**3. Databases:** Databases provide a mechanism by which articles from hundreds of technical journals spanning numerous years can be searched for a specific subject. The usability of these databases has been greatly enhanced in recent years by computerization. Examples of these databases include “The Engineering Index and The National Technical Information Service” etc. These databases can be searched by general categories or specific key words can be used for more targeted searches.

#### ***(C) Directories***

**1. Thomas Register:** The Thomas Register of American Manufacturers is a set of volumes that provide information about manufacturers of a multitude of products and services. It can typically be found in the library but is now conveniently available on the Internet at [www.thomasregister.com](http://www.thomasregister.com).

**2. Fraser's Canadian Trade Directory:** Similar to the Thomas Register, Fraser's Canadian Trade Directory provides information about Canadian providers of products and services. It is available in both hard copy and CD-ROM formats, and can also be accessed through the Internet at [www.frasers.com](http://www.frasers.com) where searches can be conducted within the categories of company, product/service or brand name.

**3. Yellow Pages:** The yellow pages are another source for suppliers and manufacturers. If availability from local suppliers is insufficient, yellow pages for other cities can often be found at the library or on the Internet.

**4. Catalogues:** There are hundreds of catalogues of parts, assemblies and materials available through vendors. These catalogues are often available through workshops and resource centres, or can be ordered by mailing away request cards often included in trade publications.

#### ***(D) Other Literature Sources***

**1. World Wide Web:** Searching the Internet can lead to websites belonging to vendors, manufacturers, consultants, design companies, professional organizations and educational centres etc. Almost every

organization of one type or another has a website and the information that is often provided on these websites is remarkable. Information found on the Internet is often more current than what is published, and often provides an e-mail address to which questions and requests for additional information can be sent. As anyone can create a website, caution should be used when utilizing information that it has been obtained from a reputable source.

**2. Brochures:** Marketing publications available from competitors or for related products can sometimes provide valuable information.

## **2. PEOPLE AS IDEA AND INFORMATION SOURCES**

An extremely valuable source of ideas that often gets overlooked is people. It is truly amazing that the viable ideas can come from not only subject experts, but also the most unlikely sources including the person sitting next to you on the plane or a small child. Designers should never be afraid to ask others for ideas. Even if someone does not have any solutions to offer, they may know where to locate information or a person who can provide information. This is called networking and can be one of the most powerful tools in business today. We can find the new ideas from the people like Colleagues, Consultants, Business Vendors, Existing Customers, Lead Users of our products and Friends and our Family Members.

**1. Colleagues:** Colleagues are usually a very approachable source of ideas. They may be people within the same company, contacts within other organizations or former classmates etc.

**2. Consultants:** Consultants are generally people who are experts in a certain area. Although mostly paid for their expertise, many willingly answer the questions and provide information as long as it is not in conflict with their commitments and doesn't require a great deal of time. Consultants can generally be located through word-of-mouth, professional directories, yellow pages, educational institutions or the Internet.

**3. Vendors:** Although the business vendors typically are interested in selling their product, many, value the development of relationships and will therefore often be a willing source of ideas and even samples. Vendors are an excellent resource as they often are current in technology and have the opportunity to visit a variety of companies where they can view different ways of doing things.

**4. Customers:** Customers are an excellent source of ideas. Often they have conducted their own research before committing to working with a team of designers on a specific project. They may have seen similar products in use and have ideas on different concepts that could be employed.

**5. Lead Users:** These people are those that had a need for a product long before the general population. Lead users have often created adaptations or invented their own solutions to satisfy their requirements until a new product comes along.

**6. Friends/Family:** Many designers find ideas for projects when casually talking to friends and family. Sometimes people who have little knowledge of the technology or the specific problem to be solved may look at things from a different perspective and propose creative solutions.

### 3. ORGANIZATIONS AS IDEA AND INFORMATION SOURCES

The Government and business organization including various departments, laboratories, associations and other professional groups are also major sources of ideas and information.

**1. Government:** There are numerous sources within all levels of government. Many departments, including the Transportation and Safety Board, the National Bureau of Standards and the Department of National Defence, have standards and guidelines based on extensive research. Engineering organizations throughout the world make extensive use of the Military Standards produced by the U.S. Department of Defence, many of which can be accessed through libraries or downloaded from the Internet. The National Technical Information Service, a branch of the U.S. Department of Commerce, is a source for worldwide scientific, technical, engineering and business related information. Much of this information can be obtained through their Internet site [www.ntis.gov](http://www.ntis.gov).

**2. Non-Profit Laboratories and Associations:** Organizations such as the Canadian Standards Association, Underwriters Laboratories, American Society for Testing and Materials, and American Standards Association can provide standards and guidelines at a nominal fee. Often products must be tested against and comply with these standards before they can be offered commercially.

**3. Professional Organizations:** Groups such as Association of Professional Engineers, /Geologists and Geophysicists of Alberta (APEGGA) and Society of Manufacturing Engineers (SME) often have publications and codes available. These organizations typically can identify and provide contact information for experts on a given subject.

### 4. . OTHER IDEA AND INFORMATION SOURCES

Generally, the innovative business ideas and its related information are available in the nature itself. The patents, analogies are other sources of ideas and information to start the enterprise.

- 1. Nature:** Many innovative technical solutions are based on principles found in nature. Birds have provided concepts for winged flight as fish have for submarines. Honeycombs have provided examples of lightweight but strong structures and the arch of the human foot demonstrates the effectiveness of a keystone bridge structure for supporting heavy loads. Velcro an extensively used fastening device was based on the gripping capabilities of a burr.
- 2. Patents:** Patents are an excellent source of technical ideas. Although the use of protected products may be prohibited or require the payment of a royalty, expired and foreign patents without global coverage can be used. Reviewing restricted patents may spawn innovative new ideas that do not fall under the restriction of a patent. The Mechanical Design Process explains the process for researching patents.
- 3. Analogies:** The creative technique of using analogies involves examining the similarities between the current design problem and another similar problem. Basically, the design team completes the phase "This situation is like..." collects solution ideas for the analogous problem then transfers these ideas to the original problem. The analogous problem can be another technical example or one from nature.



The book Guide to Basic Information Sources in Engineering by Mount is one reference that highlights additional sources for information. Many engineering design books also provide suggestions for sources of ideas and information.

### **3.4 TECHNIQUES FOR GENERATING NEW IDEAS**

Generally, the entrepreneurs identify more ideas than opportunities because many ideas are typically generated to find the best way to capitalize on an opportunity. The following are different types of techniques which can be used to stimulate and facilitate the generation of new ideas for products, services and businesses.

1. Brainstorming
2. Focus Groups
3. Observations
4. Surveys
5. Emerging Trends
6. Research and Developments
7. Trade Shows and Association Meetings
8. Other Techniques

**1. Brainstorming:** This is a process in which a small group of people interact with very little structure, with the goal of producing a large quantity of novel and imaginative ideas. The goal is to create an open, uninhibited atmosphere that allows members of the group to "freewheel" ideas. Normally, the leader of the group asks the participants to share their ideas. As group members interact, each idea sparks the thinking of others, and the spawning of ideas becomes contagious.

**2. Focus Groups:** These are group of individuals who provide information using a structured format. Normally, a moderator will lead a group of people through an open and in depth discussion. The group members will form comments in open-end in-depth discussion for a new product area that can result in market penetration. This technique is an excellent source for screening ideas and concept.

**3. Observation:** A method that can be used to describe a person or group of people's behaviour by probing:

- (i) What do people/organizations buy?
- (ii) What do they want and cannot buy?
- (iii) What do they buy and don't like?
- (iv) Where do they buy, when and how?
- (v) Why do they buy?
- (vi) What are they buying more of?
- (vii) What else might they need but cannot get?

**4. Surveys:** This is a process which involves the gathering of data based on communication with a representative sample of individuals. This research technique requires asking people who are called

respondents for information either verbally or by using written questions. Questionnaires or interviews are utilised to collect data on the telephone or face-to-face interview.

**5. Emerging Trends:** The example is based on the population within your area may be getting older and creating demand for new products and services.

**6. Research and Development:** Research is a planned activity aimed at discovering new knowledge, with the hope of developing new or improved products and services. Researching new methods, skills and techniques enable entrepreneurs to enhance their performance and ability to deliver better products and services.

**7. Tradeshows and Association Meetings:** This can be an excellent way to examine the products of many potential competitors, uncover product trends and identify potential products.

**8. Other Techniques:** This can be achieved by reading relevant trade magazines and browsing through trade directories. These may include local, national and foreign publications.

### **3.5 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 and also indicates the significance of a good beginning.

The dictionary meaning of project is that it is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that “a project has typically a distinct mission that designed to achieve and a clear termination point, the achievement of the mission.” Gillinger defines project “as a whole complex of activities involved in using resources to gain benefits”. According to Encyclopedia of management, “a project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications.” Now, a project can be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:

1. A course of action
2. Specific objectives and
3. Definite time perspectives.

Every project has starting point, an end point with specific objectives.

### 3.6 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.

#### **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.

#### **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.

#### **Techno-Economic Projects**

Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factor intensity-oriented classification, causation oriented classification, magnitude 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 preparation of 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.

### **3.7 PROJECT IDENTIFICATION**

Often intending entrepreneurs always are in search of a project having a good market but how without knowing the product cost 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:

1. Knowledge of potential customer needs.
2. Personal observation of emerging trends in demand for certain products.
3. Scope for producing substitute product.
4. Trade and professional magazines which provide a very fertile source of project ideas.
5. Departmental publications of various departments of the government.
6. Success stories of known entrepreneurs or friends or relatives.
7. A new product introduced by the competitor.
8. 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.

#### **Project Selection**

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions and the government policy and so on. For this purpose a tool is generally used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/ competitive advantages and threats/challenges offered by each of the project ideas. In addition, the entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process.

On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of few projects is also termed as “Zeroing in Process”.

There is a time interval involved in between project identification and project selection. In some cases it may be few months and in others it may be few minutes.

### **3.8 MEANING AND SIGNIFICANCE OF PROJECT REPORT**

A project report or a business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. A project report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is that the project report is like a road map as it describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. In addition, it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times. The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

### **3.9 CONTENTS OF A PROJECT REPORT**

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

1. *General Information:* Information on product profile and product details.
2. *Promoter:* His/her educational qualification, work experience, project related experience.
3. *Location:* Exact location of the project, lease or freehold, location advantages,
4. *Land and Building:* Land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
5. *Plant and Machinery:* Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.

6. *Production Process:* Description of production process, process chart, technical know how, technology alternatives available, production programme.
7. *Utilities:* Water, power, steam, compressed air requirements, cost estimates sources of utilities.
8. *Transport and Communication:* Mode, possibility of getting costs.
9. *Raw Material:* List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.
10. *Man Power:* Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
11. *Products:* Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
12. *Market:* End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
13. *Requirement of Working Capital:* Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
14. *Requirement of Funds:* Break-up project cost in terms of cost of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
15. Cost of production and profitability of first ten years.
16. Break-even analysis.
17. Schedule of implementation.

### **3.10 FORMULATION OF PROJECT REPORT**

A project report is like a road map. It is an operating document. What information and how much information it contains depend upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study "Formation of a project report." According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

- (1) General information
- (2) Project description
- (3) Market potential
- (4) Capital costs and sources of finance
- (5) Assessment of working capital requirements

- (6) Other financial aspects
- (7) Economical and social variables
- (8) Project implementation

The nature of formation to be collected and furnished under each of these stages has been given below.

**(1) General Information**

The information of general nature given in the project report includes the following:

*Bio-Data of Promoter:* Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

*Industry Profile:* A reference analysis of industry to which the project belongs, *e.g.*, past performance; present status, its organization, its problems etc.

*Constitution and Organization:* The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the Directorate of Industries /District industry Centre.

*Product Details:* Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

**(2) Project Description**

A brief description of the project covering the following aspects should be made in the project report.

*Site:* Location of the unit; owned, rented or leasehold land; industrial areas no objection certificate from municipal authorities if the enterprise location falls in the residential area.

**Physical Infrastructure:** Availability of the following items of infrastructure should be mentioned in the project report.

- (a) *Raw Material:* Requirement of raw material, whether inland or imported, sources of raw material supply.
- (b) *Skilled Labour:* Availability of skilled labour in the area *i.e.*, arrangements for training labourers in various skills.
- (c) *Utilities:* These include:
  - *Power:* Requirement of power, load sanctioned, availability of power
  - *Fuel:* Requirement of fuel items such as coal, coke, oil or gas, state of their availability and supply position.
  - *Water:* The sources of water, quality and quantity available.
  - *Pollution Control:* The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.

- *Communication and Transportation Facility:* The availability of communication facilities, e.g., telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.
- *Production Process:* A mention should be made for process involved in production and period of conversion from raw material into finished goods.
- *Machinery and Equipment:* A complete list of machines and equipments required indicating their size, type, cost and sources of their supply should be enclosed with the project report.
- *Capacity of the Plant:* The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.
- *Technology Selected:* The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.
- *Other Common Facilities:* Availability of common facilities like machine shops, welding shops and electrical repair shops etc., should be stated in the project report.
- *Research and Development:* A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

### **3. Market Potential**

While preparing a project report, the following aspects relating to market potential of the product of the product should be stated in the report.

- (a) *Demand and Supply Position:* State the total expected demand for the product and present supply position, what is the gap between demand and supply and how much gap will fill up by the proposed unit.
- (b) *Expected Price:* Expected price of the product to be realized should also be mentioned.
- (c) *Marketing Strategy:* Arrangements made for selling the product should be clearly stated in the project report.
- (d) *After Sales Service:* Depending upon the nature of the product, provisions made for after-sales should normally be stated in the project report.

#### **(4) Capital Costs and Sources of Finance**

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report. The sources should indicate the owners fund together with funds raised from financial institutions and banks.



**(5) Assessment of Working Capital**

The requirement for working capital and its sources of supply should clearly be mentioned. It is preferred to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will reduce the objections from banker's side.

**(6) Other Financial Aspects**

To adjudge the profitability of the project to be set up, a projected profit and loss account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected balance sheet and cash flow statement should also be prepared to indicate the financial position and requirements at various stages of the project. In addition to this, the break even analysis should also be presented. Breakeven point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

$$\text{Break-Even Point (BEP)} = F/S - V$$

Where F = Fixed Cost

S = Selling Price/ Unit

V = Variable Cost/ Unit

The break-even point indicates at what level of output the enterprise will break even.

**(7) Economical and Social Variables**

Every enterprise has social responsibility. In view of the social responsibility of business, the abatement costs, *i.e.*, the costs for controlling the environmental damage should be stated in the project. Arrangements made for treating the effluents and emissions should also be mentioned in the report. In addition, the following socio-economic benefits should also be stated in the report.

- (i) Employment Generation
- (ii) Import Substitution
- (iii) Ancillaration
- (iv) Exports
- (v) Local Resource Utilization
- (vi) Development of the Area.

**(8) Project Implementation**

Every entrepreneur should draw an implementation scheme or a time-table for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost will overrun. Delay in project implementation jeopardizes the financial viability of the project on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence, there is need to draw up an implementation schedule for the project

and then to adhere to it. PERT and CPM can be used to get better insight into all activities related to implementation of the project.

### **3.11 PLANNING COMMISSION GUIDELINES**

In order to process investment proposals and arrive at investment decisions, the Planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized as follows:

**1. General Information:** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, *i.e.*, the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should contain information about the enterprise submitting the feasibility report.

**2. Preliminary Analysis of Alternatives:** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and their level of production actually attained, a list of all projects for which letters of intent/licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-a-vis return should be presented.

**3. Project Description:** The feasibility report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location chosen should also be included. To assist in the assessment of the environmental effects of a project, every feasibility report must present the information on specific points *i.e.*, population, water, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity wise phasing of construction and factors affecting it.

**4. Marketing Plan:** It should contain the following items: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.

- 5. Capital Requirements and Cost:** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
- 6. Operating Requirements and Costs:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all items of operating cost should be collected. Operating costs relate to cost of raw materials and intermediaries, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.
- 7. Financial Analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A Performance balance sheet for the project data should be presented. Depreciation should be allowed for on the basis specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyze the sensitivity of the rate of return on the level and pattern of product prices.
- 8. Economic Analysis:** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour and capital. The enterprise should try to assess the impact of its operations on foreign trade. Indirect costs and benefits should also be included in the report. If they cannot be quantified they should be analyzed and their importance emphasized.

### **3.12 PROJECT APPRAISAL: MEANING AND DEFINITION**

Project appraisal is an exercise where by a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financial decision. Project appraisal means the assessment of project in terms of its economic, social and financial viability. It is a complete scanning of the project. Usually banks and financial institutions conduct a critical appraisal of projects, which are submitted to them by the entrepreneur for getting loans. They have been traditionally accepting the data provided by the entrepreneur as valid while assessing the project. In fact the emphasis has largely been on the cash flow and financial viability of a project in assessing their suitability for extending the loans. Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter a person who is not way involved in or connected with its preparation and who is as such able to take an independent dispassionate and objective view of the project in its totality as also in respect of its various components. The person who carries out appraisal of project is usually a team of institutional officials.

The appraisal of proposed project includes the following analysis:

1. *Economic Analysis:* An economic analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project cost to justify investment in it.

2. *Financial Analysis:* The purpose of the appraisal of the financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation.

3. *Market Analysis:* Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analyzing the consumption pattern and the potential demand for the project.

#### **MARKET ANALYSIS COVERS THE FOLLOWING**

- Anticipated market for the product
- Analysis of market opportunity and specifying marketing objectives
- Planning the process of marketing the product
- Organization for the marketing process
- Life cycle of the product

4. *Technical Analysis:* Technical appraisal of a project broadly involves a critical study of the following:

- **Location and Site:** There are a number of aspects that influence industrial location because it may significantly influence the cost of production and distribution efficiency, the operating environment etc. The important factors that influence industrial location are raw material, proximity to market, availability of water, power, transportation facilities, man power, labor laws, taxes, incentives, subsidies etc. The factors to be considered for selection of site are load bearing capacity, access to water, effluent discharge etc.
- **Size of the Plant/Scale of Operation:** The size of the plant determines the economic and financial liability of a project. An important aspect of size is the available process technology. Equipment is often standardized at specific capacities in production sectors. Operative capacities in such sectors are therefore available only in certain multiples.
- **Technical Feasibility:** The appraisal of the technical aspects involves scrutiny of such aspects of the project as
  - ❖ Technology selected
  - ❖ Technical collaboration and arrangements made
  - ❖ Capacity/Size of the project
  - ❖ Selection of plant, machinery and equipment
  - ❖ Plant layout and factory building
  - ❖ Technical and engineering services.

**5. *Organizational Analysis:*** As a lender and development institution, the banks and other financial institutions place particular stress on the need and efficient organization and responsible management for the execution of the project. During project appraisal, these two aspects of a project are examined. If both aspects are not carried out properly, short term remedial steps are recommended to the entrepreneur. The objective of this aspect of appraisal is to make sure that the project is adequately carried out. The various organizational aspects are organization, structure, recruitment, training and development and so on.

**6. *Managerial Aspects:*** If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is weak, it can be improved upon but if the promoters are weak and lack in business acumen, it is difficult to reverse the situation. To safeguard from this problem, the financial institutions can exercise control over the assisted units. There is a provision for appointment by the financial institutions or nominate directors on the boards of all MRTTP companies assisted by them. The Companies Act, the Industries Act (Development and Regulation), empower government to exercise powers of control over the management, including the takeover of management of industrial undertakings. All these indicate the importance given to proper managerial strategies to prevent mismanagement. If the proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent.

### **3.13 IDENTIFICATION OF OPPORTUNITY**

The reason for anyone to think of establishing an SSI unit can be summarized in single word—opportunity. The opportunity to be your own boss, to implement your own ideas, to earn for himself or herself is reason to think of starting an SSI unit. Starting an SSI needs a lot of courage. To be successful, to stay in the business an entrepreneur needs combination of hard work, skill and perseverance.

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or resources to do it. These people may have already developed many of skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the start-up phase of a new business.

The second group consists of people who want to start their own business, but do not have definite ideas about what they would like to do. They may have developed skills during their education or in the course of their previous employment, but may not have interest in opening a business in the same field of endeavor. Project identification is concerned with the collection complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through. Additive

opportunities are those opportunities which enable the decision maker to better utilise the existing resources without in anyway involving a change in the character of business. Complementary opportunities involve the introduction of new ideas and as such do lead to certain amount of change in the existing structure. Breakthrough opportunities on the other hand, involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk. The element of risk is more in other two opportunities. Project identification cannot be complete without identifying the characteristics of the project. Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup. The nature and magnitude of these input must be determined in order to make the input characteristics explicit. The output characteristics of a project define what the project will generate in the form of goods and services, employment, revenue etc. The quantity and quality of all these output should be clearly specified. In addition every project will have impact on society. It inevitably affects the current equilibriums of demand and supply in the economy. It is necessary to evaluate carefully the sacrifice which the society will be required to make and the benefits will not accrue to the society from a given project.

### **3.14 PROJECT FEASIBILITY STUDY**

Project feasibility analysis is carried out to ensure viability of project. The important project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility
4. Economic feasibility
5. Ecological feasibility.

#### **Market Feasibility**

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, and the market share of the project under consideration. For this market analysis requires variety of information and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure

- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints.

### **Technical Analysis**

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability of raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?
- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of-the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

### **Financial Analysis**

Financial analysis is necessary as ascertain whether the propose project is financially viable in the sense of being able to meet the burden of servicing dept and whether the proposed project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash shows of the project
- Investment worthiness, judged in terms of various criteria of merit
- Project financial position
- Level of risk

### **Economic/Social Cost-Benefit Analysis**

This is concerned with judging a project from the larger social point of view, where in the focus if on social costs and benefits of a project, which may often be different from its monetary costs and benefits. The questions to be answered in social cost benefit analysis is are as follows:-

- What are the direct economic benefits and costs of the project measured in terms of shadow prices and not in terms of market prices?
- What should be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfillment of certain like self-sufficiency, employment and social order?

### **Ecological Analysis**

Today, environment concerns assured a great deal of significance and hence ecological analysis should be done, particularly for projects which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows:-

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

### **3.15 INTRODUCTION TO PROFIT**

Profit motive is the most important motive that governs the behavior of business firms. In studying the pricing and output decisions of the business firm, economists usually rely on the assumption of profit maximization. The difference between the total revenue and total cost in economic profit, which it is assumed, the firm attempts to maximize subject to the constraints imposed by consumer demand and production costs. The profit analysis allows us to predict quite well the behaviors of business firms in the real world. Profit analysis is quite useful in predicting the price and output-behaviors of business firms in response to changes in tax rates, wage rates, availability of resources, and so on.

### **3.16 MEANING AND NATURE OF PROFIT**

Profit is the reward of the entrepreneur rather than the entrepreneurial functions. Profit differs from the return on other factors in three important respects: (a) Profit is residual income and not contractual or certain income as in the case of other factors; (b) There are much greater fluctuations in profits than in the rewards of other factors and (c) profits may be negative whereas rent, wages and interest must always be positive.

The term “profit” means all excess of income over costs and this includes the earnings of self-used factors; i.e., entrepreneur's own land, capital and his own labour work called respectively implicit rent, implicit interest and implicit wage. But in economics, profit is regarded as a reward



for the entrepreneurial functions of final decision making and ultimate uncertainty bearing. Profits can be expressed in the following different ways.

(i). Gross Profit and Net Profit

A businessman analyses gross profit income available to him after payment is made to contractual hired factors and taxes, depreciation charges, insurance charges. In other words, it is the excess of revenue receipt over explicit payment and charges.

Gross profit = Total Revenue - Explicit costs

Net profit, also called as pure profit or economic profit, is the residual balance of income after making payments to all contractual and non-contractual payments to factors of production. Implicit costs have to be deducted from gross profit to arrive at net profit, which could be positive or negative.

(ii) Normal Profit and Supernormal Profit

Normal profit refers to that portion of profit which is absolutely necessary for the business to remain in operation. In other words, it is the minimum necessary to induce the business to remain and operate. Normal profit forms part of the average cost. The organizer obtains, normal profit when average revenue is equal to average cost ( $AR = AC$ ).

Super normal profit or abnormal profit could be treated as any return above the normal profit. It is the residual surplus after paying for explicit costs, implicit costs and normal profit. When average revenue or price is more than the average cost, the entrepreneur gets super-normal profits. The existence of this profit is not obligatory to the firm to remain in business like normal profits.

(iii) Accounting Profit and Economic Profit

Accounting profit is the revenue obtained during the period minus the cost and expenses incurred to produce the goods responsible for getting the revenue.

Accounting profit = Total Revenue - The cost involved in producing and selling.

This theory is heavily discounted on the ground that it does not take into consideration other expenses like the entrepreneurs wages, rental incomes on self-owned land and interest on self-capital (also called as imputed cost).

The economic profit refers to those items that take into consideration both explicit costs and implicit costs. Economists point out that economic profits are more important than accounting profits since they alone reflect the true profitability position of the business enterprise.

Economic profit = Total Revenue - Explicit costs + imputed costs. . .

OR

Economic profit = Accounting profit - Imputed cost.

### 3.17 THEORIES OF PROFIT

The theories of profits could be analysed and explained as follows:

- Profit as the reward for risk bearing and uncertainties,
- Profit as the consequence of frictions and imperfections in the economy (dynamic theory of profits),
- Profit as a reward for successful innovation and
- Profit as a payment for organising other factors of production.

Thus, there are several viewpoints in explaining theories of profits.

To some economists, profits are nothing different from rent. Rent is defined as a differential surplus. Similarly profit also arises when some entrepreneurs have more ability over others in the field of production. While rent refers to land, profit refers to production. A superior entrepreneur enjoys more talent as compared to a marginal entrepreneur. Prof. Senior and Prof. Mill treated rent and profit on the same level and this was responsible for developing a full fledged theory of profit by the American economist Prof. F Walker. His theory, is called the Rent theory of Profit.

Prof. Walker's concept of profit is-synonymous with Prof. Richardo's theory of rent. Rent arises due to the fact that not all pieces of land have the same fertility and productivity; likewise profit arises due-to differential factors in talent and ability of the entrepreneur, who is supposed to be the captain of industry. This position ensures the emergence of differences in industrial revenue profit, just like the differences in agricultural revenue and rent Prof. Walker treats profit as “rent of ability.”

#### 1. Risk and Uncertainty Theory of Profits

This theory envisages that profit is a reward paid to the organisation for undertaking risks. People generally do not want to shoulder risks but some who are prepared to venture in spite of risks involved should be rewarded and this rewards is profit. Higher the risk, higher will be the reward. Since business operates under conditions of uncertainty, the risk premium, in the form of profit is to be paid. Risks are not confined only to owners who receive profits and even non-entrepreneurial risks, like the risk of vocational specialization are also important. According to Prof. Hawley, risk bearing is the special function of an entrepreneur and it leads to the emergence of profit. Greater the risk, greater will be the expected gain to induce entrepreneur and to start the business. Most businesses are speculative and reward is necessary to the risk bearer. According to Prof. Hawley's concept, enterprise is the only real productive factor - land, labour, and capital are subordinate factors and mere means of production. Prof. F H Knight contends that risks are an inherent factor in any business and they are of two kinds, insurable risks and non-insurable risks, In the case of insurable risks one can predict the event and it could be subject to insurance. This insurance premium becomes a part of the cost of production and enters into price. But business risks

are non-insurable and these risk are necessarily to be borne by the entrepreneur himself. They include risk of competition, technological risks, business cycle risks and risks arising from governmental action such as tax policy, price control, import and export restrictions, etc. The above risks are not insurable. Prof. Knight advanced the theory that pure economic profit is related to uncertainty. The foreseen risks are insurable. The only unforeseen risks are non-insurable and they are responsible for the emergence of profit. According to him, it is uncertainty-bearing rather than risk-bearing that earns profit for the entrepreneur.

## **2. Profit as a Reward for Market Imperfection and Friction in Economy**

(Dynamic Theory of Profit)

In a static economy neither demand nor supply changes. The demand for a commodity depends upon the size of population, incomes, consumer's tastes, substitutes of commodities, price and the price of related goods. In a static equilibrium, the supply of the commodity does not change. When demand and supply do not change, the price as well as the cost of production remains constant.

So, to say, in a static equilibrium the price of the product will be equal to the average total unit cost of production including normal profit. But this static equilibrium concept is only theoretical in character.

In a dynamic world, things keep on changing and every thing is uncertain. In a dynamic economy all factors that influence demand and supply change continuously resulting in profit or loss. The demand for a commodity or service may increase due to many factors like population, rise in incomes, non-availability of substitutes, changes in tastes, etc. Such a demand may increase price of the product and the cost of production remaining constant, profit will arise. Similarly, the supply position may also increase due to improvements in transport facilities, introduction of new production processes, reduction in the cost of raw materials, etc.

According to Prof. Clark, profits belong essentially to economic dynamics and not to economic statics where the economy is frictionless and full competition pervades. In a static economy, pure profit would be eliminated as fast as they could be created.

A war, an inflation, a business depression are all factors in a modern economy which lead to profit or losses. During inflation, prices and costs go up but prices increase at a faster rate than costs resulting in larger margins of profit to producers and merchants. During a depression the opposite trend prevails. These consequences are common to all firms and industries and are beyond the control and influence of anyone.

At times, individual firms introduce dynamic changes through inventions of science and technology; introduction of new processes of production, introduction of new commodities and changes in advertisements and salesmanship. These changes are the cause for the emergence of

profit. Some argue that profit is the result of disequilibrium and imperfect competition in the market. Especially the monopoly powers prevailing in the market help producers of companies to accrue profits. They raise prices by restricting output and the economy cannot adjust itself immediately to changes in costs and demand. Their concept of profit is due to the enhanced earnings of a permanent monopoly and which is market imperfection.

### 3. Innovation Theory of Profits :

Prof. J A-Schumpeter's theory of profits is almost akin to the theory of profits enunciated by Prof. J B Clark. Prof. Schumpeter, in his innovation theory, attributed profits to dynamic changes in the productive process due to the introduction of modern science and technology of production techniques. Risk Plays no part in this theory and profits are solely attributed to dynamic development. Innovation may bring about changes in methods of consumer tastes increasing national output more than increase in costs. The increased net output is the profit out of innovation. New organization, new promotion, new raw material, new markets or new products constitute innovation. Through advertising and research laboratories, innovation is built into the competitive system. It may also be argued that profit is the cause for innovation. According to Schumpeter, profit is both the cause as well as the effect of innovations and thus it is the cause and effect of economic progress also. Profit accrues not to the innovator, nor to the financier but to the entrepreneur who introduces it into the productive process. When innovation becomes obsolete, profit disappears and innovation is always subject to competition. Innovational profits have a tendency to appear, disappear and reappear as the result of emergence of new and more clever innovation.

### 4. Profit as a Reward for Organizing other Factors of Production

A proportionate combination of the various infrastructures, men, material, money, machinery, marketing is quite indispensable to produce the desired output. Entrepreneur takes this responsibility to coordinate these infrastructures to produce products. He not only takes unforeseen risks but also in the midst of uncertainties, combines the factors of production to produce output. A disproportionate combination of factors only increases cost of production and reduces profits. It is here that the entrepreneurial skill and wisdom play a very important part. In owner-managed firms, part of the profit goes to the manager's skill. In large corporations, the responsibility of organizing the infrastructure and their efficient and effective utilization to the optimum point fully rests with the salaried managers and as such the companies profit is to be treated as a payment for organizing and directing activities.

All profits, in a sense, are complementary, since many factors like risk, uncertainty, innovation and monopoly powers, etc, affect every business activity in profit earning.

In general, it could be argued that under perfect competition, when the price is equal to the average and marginal costs, the entrepreneur gets only “normal profits” and not supernormal profits.

### **3.18 DEPRECIATION**

With the passage of time and use, the equipment, machinery and buildings wear out and in course of time they become useless from the business point of view they only have scrap value. To measure the true income of a business, a charge is made by the accountant against the annual income of the business and this charge is termed as depreciation. It is usually provided in equal amounts over the life of the asset. The provision of depreciation enables the firm to provide for replacement of the asset by the time it is declared a scrap. The depreciation charges vary from company to company. In heavy industries like iron and steel, air transport, railways, aluminum industries, etc., heavy depreciation charges are provided; whereas in the case of banks, insurance companies, financial institutions, etc., the depreciation charges are relatively lower. Depreciation acts as an instrument for stimulating capital formation and directing investments in the national interest.

For the purpose of reporting business profits to the shareholders and income tax authorities, different methods of measuring depreciation are followed.

The commonly accepted methods of depreciation are discussed below.

#### **1. Straight Line Method**

Under this method an asset is supposed to wear evenly during its normal life and depreciation is provided uniformly on the assumption that the asset depreciates more rapidly at some stages of its life than at others. Assuming that there is no scrap, value, the annual depreciation is worked out by dividing the initial value of the asset by the number of years estimated. If the asset has scrap value, it is deducted from the initial cost and then divided by the estimated life in years.

For example if the initial cost of the asset is Rs 5,000 with a scrap value of Rs 500 and estimated life of 5 years, the amount of annual value of depreciation would be

$$\text{Rs. } \frac{5000 - 500}{5} = \frac{4500}{5} = \text{Rs } 900/- \text{ per year}$$

This method is very simple, provided the asset is not prone to premature retirement due to obsolescence or accidents.

The depreciation charge is made against annual income and set apart for being credited to depreciation fund. This method does not take into consideration the fact that the cost of repairs is likely to be higher in the later years of the life of the asset due to heavy wear.

From the economists point of view there are two methods of charging depreciation. First, the opportunity cost of equipment, that is, the most profitable alternative use of the asset that is

foregone by putting the asset to its present use. Secondly, the exhaustion of year's worth of limited valuable life of the asset to be the basis of depreciation charges, and this is measured by the replacement value of the equipment that will produce comparable earnings. Both these economic concepts are important to management since the opportunity cost is required for operation problem of profit making, whereas the second is required to find out the replacement of eroded earnings ability which help in financial problems of preserving and administering capital.

## **2. Declining Balance Method (DBM)**

According to this method depreciation is provided at a uniform rate on the written value of the asset at the commencement of the year. For example, if the value of the asset is Rs.2,000 at the beginning of the year and the rate of depreciation is 20 per cent, the first year depreciation will be Rs 400 and the written down value of the asset at the beginning of the second year would be Rs 1600. Similarly, the written down value in the 3rd year would be Rs 1280 and so on. Under this method, even after 5 years the written down value will never be zero and as such the asset is supposed to have some scrap value.

## **3. Sum of the Year's Digits Method (SYDM)**

This method is similar to declining balance method that is to provide for more or less uniform total cost of operation of the asset. But this method differs from the declining balance method in that the book value remains constant while the annual rate of depreciation changes. For example, the expected life periods are 5,4,3,2 and 1 which add upto 15, and 15 serves as a common denominator of the numerators 5,4,3,2 and 1. Thus, the annual rates are 5/15, 4/15, 3/15, 2/15 and 1/15 respectively. If it is assumed that the original value of the asset is Rs 1000, scrap value is Rs 100 and the expected life of the a set is 5 years; the basis is  $\text{Rs } 1000 - 100 = \text{Rs } 900$ .

Either of these two methods, DBM and SYDM, will be found useful as well as equitable.

## **3.19 PROFIT PLANNING & FORECASTING**

In the modern dynamic world the attitudes and policies of business firms are entirely different. Economic theory makes an assumption that the maximization of profit is the sole objective of a business firm. Today profit maximization refers to the long run periods; to managements rather than to owner's income; to include non-functional income; to restrain competition; to maintain management control, etc. Of late there seems to be same realization on the part of the management and economic theorists that firms do not always aim at profit maximization in relation to marginal cost and revenue, but set standards and targets of reasonable profits for the following considerations.

- To attain industry leadership
- To forestall potential competition
- To prevent governmental intervention and restraints

- To maintain and foster consumer goodwill
- To control wage increases
- To avoid risks threatening the survival of the business firms and
- To maintain the liquidity of the business firm.

Modern business firms feel that they have a social responsibility and an obligation to society and therefore they are even prepared to sacrifice profits during the short run periods. The executives want to limit profit in order to maximize their own benefits either by non-diluting control over the industry or by the desire to maintain pleasant working conditions. Today firms set “profit standards” through a percentage on sales or a reasonable return on investments. To discourage potential competitors, return on investments seems to be a relevant profit standard, if all new firms have similar cost standards. From the owner's point of view, return on capital is the best method for profit standard because the ratio of profits to sales varies very widely among firms. Now the problem is how to set the standard and what is the criteria behind it.

Capital is formed by attracting investments (profit is a bait to attract capital along with the interest rates) and also by ploughing back the earned profits. Therefore, the criteria to be set depends upon the mode applied to achieve the above.

It is necessary to set different standards for different companies and purposes, since they give widely varying results depending on market conditions. The business firms pursue a variety of profit policies to achieve different goals like long run survival; to maintain safety margins; to introduce leisure as a variable; to maintain financial control of the firm; to maintain liquidity; to earn a satisfactory return or to maximize sales subject to profit constraints, etc.

#### 1. Profit Planning

A sound and healthy business should always aim at consistent profit in the midst of risk and uncertainties which are a result of the dynamic nature of consumer needs, peculiar nature of competition and uncontrollable nature of costs. Thus, planning for profit is absolutely necessary, and demands a thorough understanding of the relationship between output, cost and price and it is the “break even analysis” that can explain this relationship clearly. Through break even analysis, it is possible to derive managerial actions to maintain and increase profitability.

#### 2. Profit Measurement

For most firms, the most practical measure of whether they are making adequate profits is the rate of return on capital which is calculated as

$$\text{Rate of return on capital} = \frac{\text{Net Profit}}{\text{Fixed Capital}} \times 100$$

If this figure is too low then the firm would have to question either its profitability and how it could be improved or in extreme cases whether its capital could be invested more effectively elsewhere.

Profits are the excess of total revenue over total costs, where total costs include both explicit and implicit costs.

### 3.20 Cost Volume-Profit Relation

Cost is the result of the operation of a number of varying factors such as:

- Volume of production,
- Product mix,
- Internal efficiency
- Methods of production,
- Size of plant, etc.

Of all these, volume is perhaps the largest single factor which influences costs which can basically be divided into fixed costs and variable costs. Volume changes in business are a frequent occurrence, often necessitated by outside factors over which management has no control and as costs do not always vary in proportion to changes in levels of output, management control of the factors of volume presents a peculiar problem.

As profits are affected by the interplay of costs and volume, the management must have, at its disposal, an analysis that can allow for a reasonably accurate presentation of the effect of a change in any of these factors which would have no profit performance. Cost-volume-profit analysis furnishes a picture of the profit at various levels of activity. This enables management to distinguish between the effect of sales volume fluctuations and the results of price or cost changes upon profits. This analysis helps in understanding the behaviour of profits in relation to output and sales.

Fixed costs would be the same for any designated period regardless of the volume of output accomplished during the period (provided the output is within the present limits of capacity). These costs are prescribed by contract or are incurred in order to ensure the existence of an operating organization. Their inflexibility is maintained within the framework of a given combination of resources and within each capacity stage such costs remain fixed regardless of the changes in the volume of actual production. As fixed costs do not change with production, the amount per unit declines as output rises.

Absorption or full costing system, seeks to allocate fixed costs to products. It creates the problem of apportionment and allocation of such costs to various products. By their very nature, fixed costs have little relation to the volume of production.



Variable costs are related to the activity itself. The amount per unit remains the same. These costs expand or contract as the activity rises or falls. Within a given time span, distinction has to be drawn between costs that are free of ups and downs of production and those that vary directly with these changes.

Study of behaviour of costs and CVP relationship needs proper definition of volume or activity. Volume is usually expressed in terms of sales capacity expressed as a percentage of maximum sales, volume of sales, unit of sales, etc. Production capacity is expressed as a percentage of maximum production, production in revenue of physical terms, direct labour hours or machine hours.

Analysis of cost-volume-profit involves consideration of the interplay of the following factors:

- Volume of sales
- Selling price
- Product mix of sales
- Variable cost per unit
- Total fixed costs

The relationship between two or more of these factors may be (a) presented in the form of reports and statements or (b) shown in charts or graphs or (c) established in the form of mathematical deduction.

#### **OBJECTIVES OF COST-VOLUME-PROFIT ANALYSIS:**

The objectives of cost-volume-profit analysis are given below:

- In order to forecast profit accurately, it is essential to know the relationship between profits and costs on the one hand and volume on the other.
- Cost-volume-profit analysis is useful in setting up flexible budgets which indicate costs at various levels of activity.
- Cost-volume-profit analysis is of assistance in performance evaluation for the purpose of control. For reviewing profits achieved and costs incurred, the effects on cost of changes in volume are required to be evaluated.
- Pricing plays an important part in stabilizing and fixing up volume. Analysis of cost-volume-profit relationship may assist in formulating price policies to suit particular circumstances by projecting the effect which different price structures have on costs and profits.

- As predetermined overhead rates are related to a selected volume of production, study of cost-volume relationship is necessary in order to know the amount of overhead costs which could be charged to product costs at various levels of operation.

### **3.22 PROFIT-VOLUME (P/V) RATIO**

The ratio or percentage of contribution margin to sales is known as P/V ratio. This ratio is known as marginal income ratio, contribution to sales ratio or variable profit ratio. *P/V* ratio, usually expressed as a percentage, is the rate at which profits increase with the increase in volume. The formulae for P/V ratio are

$$\text{P/V ratio} = \text{Marginal contribution} / \text{Sales}$$

Or

$$\text{Sales value} - \text{Variable cost} / \text{Sales value}$$

Or

$$1 - \text{Variable cost} / \text{Sales value}$$

Or

$$\text{Fixed cost} + \text{Profit} / \text{Sales value}$$

$$\text{Change in profits} / \text{Contributions} / \text{Changes}$$

(All the above formulae mean the same thing).

A comparison for P/V ratios of different products can be made to find out which product is more profitable. Higher the P/V ratio more will be the profit and lower the P/V ratio, less will be the profit. P/V ratio can be improved by

- Increasing the selling price per unit.
- Reducing, direct and variable costs by effectively utilising men, machines and materials.
- Switching the product to more profitable terms by showing a higher P/V ratio.

### **3.23 BREAK-EVEN ANALYSIS**

Break even analysis examines the relationship between the total revenue, total costs and total profits of the firm at various levels of output. It is used to determine the sales volume required for the firm to break even and the total profits and losses at other sales level. Break even analysis is a method, as said by Dominick Salvatore, of revenue and total cost functions of the firm. According to Martz, Curry and Frank, a break even analysis indicates at what level cost and revenue are in equilibrium.

In case of break even analysis, the break even point is of particular importance. Break even point, is that volume of sales where the firm breaks even i.e., the total costs equal total revenue. It is, therefore, a point where, losses cease to occur while profits have not yet begun. That is, it is the point of zero profit.

$$\text{BEP} = \frac{\text{Fixed Costs}}{\text{Selling price} - \text{Variable costs per unit}}$$

$$\text{For Example} = \frac{\text{Fixed Costs Rs. 10,000}}{\text{Selling price Rs 5 per unit} - \text{Variable costs Rs. 3 per unit}}$$

$$\text{Therefore, BEP} = \frac{\text{Rs. 10,000}}{5 - 3} = 5,000 \text{ units}$$

#### 1. Uses of Break even Analysis

Break even analysis is a very generalized approach for dealing with a wide variety of questions associated with profit planning and forecasting. Some of the important practical applications of break even analysis are:

- What happens to overall profitability when a new product is introduced?
- What level of sales is needed to cover all costs and earn, say, Rs 1,00,000 profit or a 12% rate of return?
- What happens to revenues and costs if the price of one of a company's product is changed?
- What happens to overall profitability if a company purchases new capital equipment or incurs higher or lower fixed or variable costs?
- Between two alternative investments, which one offers the greater margin of profit (safety)?
- What are the revenue and cost implications of changing the process of production?
- Should one make, buy or lease capital equipment?

#### 2. Assumptions of Break even Analysis

The break even analysis is based on certain assumptions, namely

- All costs are either perfectly variable or absolutely fixed, over the entire period of production but this assumption does not hold good in practice.
- The volume of production and the volume of sales are equal; but in reality they differ.
- All revenue is perfectly variable with the physical volume of production and this assumption is not valid.
- The assumption of stable product mix is unrealistic.

### 3.24 RISK ANALYSIS

Risk is inherent in every business. However hard we may try to eliminate it, it can't be eliminated and can only be reduced. Project cost estimates life of the project and the estimates of demand, production, sales and prices may not prove to be accurate because of uncertainty about future. Project decisions are based on many political and social developments as well as changes in technology, prices competition and productivity. Foreseeable risk implies considering all these factors while deciding about the desirability of a project. The size of allowance provided for this

purpose will have a decisive impact on the profitability of the project and in certain cases where the profitability appears to be less, the project may not be carried on. Thus, it is necessary to incorporate measures at the appraisal stage to identify the risk factors and provide for the same.

The decision situations can be classified into three types *viz.* certainty, risk and uncertainty. Certainty refers to the situation where the future outcome can be accurately predicted. In reality all investment decisions are undertaken under conditions of risk and uncertainty. Risk refers to a situation where probability distribution of a particular outcome could be objectively known in advance. Uncertainty refers to a situation where such probability distribution cannot be objectively known but can only be guessed.

There are some factors which add to the degree of uncertainty of an investment and these are:

- (i) The process or the product becoming obsolete.
  - (ii) Decline in demand for the product.
  - (iii) Change in government policy about business.
  - (iv) Price fluctuations.
  - (v) Foreign Exchange restrictions.
  - (vi) Inflationary tendencies etc
- Uncertainty can be managed in two ways :
- (I) By employing modern quantitative techniques such as System Analysis, Marketing Research, Operations Research, Network Analysis etc.
  - (II) By using some techniques for handling risk at the capital investment appraisal stage. In mathematical sense, risk refers to a set of unique outcomes for a given event which can be assigned probabilities. Uncertainty refers to outcomes of a given event which are too unsure to be assigned probabilities *i.e.* risk exists when the decision maker is in a position to assign probabilities to various outcomes. This happens when the decision maker has some historical data on the basis of which he assigns probabilities to other projects of the same type. Uncertainty exists when the decision maker has no historical data from which to develop a probability distribution and must make intelligent guesses in order to develop a subjective probability distribution *e.g.* if the project is new to the firm, then decision maker through research and consultation with others, can develop or assign probabilities to possible outcomes.

Investment planning is impossible without a thorough understanding of risk. There is risk-return trade off *i.e.* the greater the risk accepted, the greater must be the potential return as reward for committing one's resources to an uncertain outcome. As the level of risk rises, the rate of return should also rise and vice versa. Risk can be perceived, defined and handled in various ways. One way to handle risk is to avoid it *e.g.* risk of being injured while driving

a vehicle can be avoided by not driving a vehicle. One may view a risk in taking food that might be toxic. Complete avoidance by refusing to eat at all would create the ultimate inevitable outcome of death and as such avoidance is not a viable choice. In the investment world, avoidance of some risk is deemed to be possible through the act of investing in risk free investments. Stock market risk can be avoided by choosing to have no exposure to it by not investing in equity securities.

Another way to handle risk is to transfer the risk. Risk transfer can be linked to the concept of insurance *e.g.* health insurance is advisable if one is interested in covering financial risk of becoming severely ill. An insurance company allows the transfer of large medical bill to itself in exchange for a fee called an insurance premium. The insurance company is fully convinced that it can collect enough premiums and have a large enough pool of insured persons ; it can pay the cost of the minority who will require extensive medical treatment and have enough left over to record a profit.

It is normally believed that investors are rational and are averse to risk taking. Rational investors prefer certainty to uncertainty. A risk averse investor is one who will not assume risk simply for its own sake and will not incur any given level of risk unless there is an expectation of adequate compensation for having done so. It is not irrational to assume risk, even very large risk, as long as one expects to be compensated for it. Investor cannot reasonably expect to earn larger returns without assuming larger risks. Investors do opt for high level of risk with the expectation of high levels of return. On the other hand investors unwilling to assume much risk should not expect to earn large returns. There is need to think in terms of the expected return-risk trade off that results from the direct relationship between the risk and the expected return of an investment.

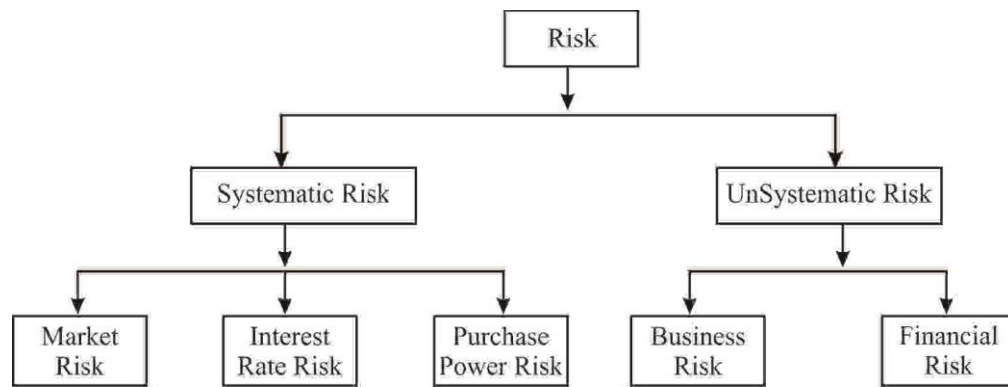
Investors should also think about the time period involved in their investment plans. It is normally assumed that the longer is the time horizon the more risk can be incorporated into financial planning.

### 3.25 TYPES OR KINDS OF RISKS

Risk means possibility of financial loss which can adversely affect both present and future of an entrepreneur. Various types of risks are :

Systematic and Non Systematic risks.

An investor can construct a diversified portfolio and can eliminate part of the total risk. Variability in a security's total returns that is directly associated with the overall movements in the general market or economy is called systematic risk. Non systematic risk includes the variability in a security's total returns not related to overall market variability. The unsystematic risk is that portion of total risk which is unique and peculiar to the firm. Factors such as management capability, labour strikes, consumer preferences etc. cause these variability of returns in a firm.



**1. Market Risk.** Market risk may be caused by investor's reaction to tangible as well as intangible events. Political, social or economic developments are a set of real and tangible events. The intangible events relate to pure market psychology. The market risk is usually touched off by a reaction to real events, but the emotional instability of investors acting collectively leads to snowballing over reactions.

**2. Interest rate risk.** Interest rate risk refers to the uncertainty about future market price and the size of future income caused by changes in the interest rates. The variability in a security's return resulting from changes in the level of interest rates is referred as interest rate risk. Such changes generally affect securities inversely *i.e.* other things being equal, security prices move inversely to interest rates. The reason for this movement is tied up with the valuation of securities. Interest rates risk affects bonds more directly than common stock and is a major risk faced by all bond holders. As interest rates change, bond prices change in the opposite direction.

**3. Purchase Power Risk.** (Inflation Risk). Risks arising from the decline in purchasing power on account of inflation is referred as inflation risk. This is more pronounced for the holders of fixed income securities. If we think of an investment as postponement of consumption we can visualize that when a person buys a share he postpones his present consumption. He had foregone an opportunity to buy some goods as long as he holds these shares. If during this period, the prices of desired goods rise, the investor loses the purchasing power. He, therefore, requires to be compensated by way of additional returns. Rational investor makes provision to include an allowance for loss in the purchasing power in the estimate of expected returns.

**4. Business Risks.** Every firm operates within a particular operating environment. Business Risk is a function of operating conditions faced by a firm. An investor is exposed to the risk of poor-business performance. This may be the result of stiff competition, emergence of new technologies, development of substitute products, shifts in consumer preference, inadequate supply of essential inputs, incompetence, failure of management etc. Business risks can be divided under two heads namely external and internal. Internal business risk is largely associated with the efficiency with

which the firm conducts the business within the broad operating environment imposed on it. External business risk is the result of operating conditions imposed upon the firm by external environment, on which the firm has no control. The recessionary situation, government policies with respect to monetary and fiscal situation, liberalisation of imports and increase in competition are instances of such factors. The poor business performance caused by external and internal sources of business risks definitely adversely affects the interests of shareholders and bondholders.

**5. Financial Risk.** Financial risk is associated with the way a firm finances its activities. The presence of borrowed money or debt in the capital structure creates a fixed charge in the form of interest liabilities. These liabilities must be sustained by a firm. The presence of interest commitment causes more variability in residual income available for shareholders. Financial risk is avoidable to the extent management has freedom to decide to borrow or not to borrow funds. A firm with zero debt financing has no financial risk.

### 3.26 METHODS OF RISK ANALYSIS

#### 1. Modern Quantitative Methods

(i) **Systems Analysis:** It refers to the set of techniques concerned with the analysis, procedures and other methods of doing things and with the design and implementation of new & superior system. Its principal objective is to evaluate alternatives in a consistent unarbitrary manner. Growth in size and complexity of business operations need a systematic examination of a problem of choice in which each step of the analysis is made explicit.

(ii) **Marketing Research:** It is a systematic study or investigation to collect and interpret facts for providing information to management to get products and services more efficiently into the hands of the consumers. It is used to forecast objectively the demand potential for goods and services of the prospective project. The main aim is to assess the available opportunities and study the future trend of these opportunities so that investment decision could be taken with a degree of confidence. It will help in reducing the degree of risk.

(iii) **Operations Research:** It enables a decision maker to be more objective in choosing among alternatives. Some popular OR techniques are linear programming, game theory, inventory control techniques.

(iv) **Network Analysis—PERT/CPM:** Gestation period is the time lag which will elapse between the commencement of investment and start of the return on investment—a vital-determinant in establishing the acceptability of the project. The longer the gestation period, higher would be cost escalations and the risk associated with the project resulting in lower returns. PERT and CPM provide the project formulation with one of the most effective analytical aid.

This analysis is useful in :

(i) Developing the project.

- (ii) Controlling the project implementation delays and costs.
- (iii) Ascertaining gestation period realistically.
- (v) Break Even Analysis. Break even point is that level of output/sales where there is no profit or no loss. Below that point there is loss and beyond that point there is profit.

Break even analysis serves as an important managerial tool to study cost-output profit relationship at varying levels of output. It also helps in forecasting profits more accurately. Break even analysis evaluates the performance of business in terms of cost of incurred and profit earned. It also helps the management in deciding about pricing policies. The mathematical model of analysing cost volume profit relationship can be shown in the form of following equations.

$$\text{Sales} = \text{Variable cost} + \text{Fixed Cost} \pm \text{Profit/Loss.}$$

$$\text{Sales} - \text{Variable Cost} = \text{Fixed Cost} \pm \text{Profit/Loss.}$$

$$\text{Contribution} = \text{Sales} - \text{Variable Cost.}$$

$$\text{Contribution} = \text{Fixed Cost} \pm \text{Profit/Loss.}$$

In order to make profit, the contribution must be more than fixed cost and to avert any loss, contribution must be equal to fixed expenses. Profit-Volume Ratio (P/V Ratio) establishes the relationship between contribution to sales.

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

$$\text{Where Contribution} = \text{Sales} - \text{Variable Cost}$$

A high P/V Ratio shows that even a slight increase in the volume without a corresponding increase in fixed cost would result in high profit. P/V Ratio can be increased by maximising contribution which is possible by increasing selling price, reducing variable cost and by improving product size.

(vi) Ratio Analysis: Cost, benefits and profits measured in absolute figures do not provide clear information while comparing two or more investment proposals or resource allocation. Ratio analysis can be used for better, easy and useful comparisons.

The above stated methods can help in the minimisation of the degree of risks associated with different types of investment decisions. These methods cannot completely eliminate risk.

Risk Analysis is of immense use while taking any investment decision.

II. Various Methods Under Risk Analysis are :

- (i) Shorter Payback Period. Shorter is the payback period for a project the better it will be for the firm implementing that project. Projects with the shortest payback period should be preferred. Cut off period states the risk tolerance level in the firm. Both payback period and cut off period should be considered while taking decision on any project.



- (ii) **Sensitivity Analysis.** It is a simulation technique in which key variables are changed and the resulting change in the rate of return is observed. Those variables are selected whose estimated value may contain significant errors or an element of uncertainty and then to calculate the effect of errors of different sizes on the present value of the project. Key variables are cost, prices, market share, project life etc. The method involves varying each strategic variable by certain fixed percentage in both positive as well as negative directions in turn and examine the impact of change on the rate of return.
- (iii) **Probability Analysis.** Probability is the measure of one's opinion about the likelihood that an event will occur. Two types of probabilities namely objective and subjective are used for decision making under uncertainty. The objective probability is the probability estimate which is based on very large number of observations. Subjective probabilities are based on the state of belief a person rather than objective proof of a large number of trials. Since capital expenditure decisions are mostly non repetitive and not taken under identical situations, only subjective probabilities are useful and hence employed.

### 3.27 CRITERIA FOR EVALUATING PROPOSAL TO MINIMIZE RISK

It is evident that project giving higher rate of return involves higher degree of risk. While selecting a project a firm has to keep in mind its capacity to bear risk. To select or reject a proposal following criteria is adopted.

- (i) **Select the least risky proposal:** According to this criteria a firm will accept only that proposal which has the least risk. For this purpose all proposals are arranged according to the degree of risk involved in an ascending or descending order. The proposal having least risk is accepted. In case two or more proposals are to be picked up then those having minimum risk are chosen.
- (ii) **Avoid proposals with fluctuating returns.** According to this criteria a firm should avoid those proposals which have larger fluctuations in the returns. For example a proposal having fluctuations in returns from 10% to 15% should be preferred in comparison to a proposal having return from 5% to 30%.
- (iii) **Apply hurdle rates.** As per this criteria a firm determines different hurdle rates for different risk levels. The firm may decide the minimum acceptable return below which it is not going to accept the proposal *e.g.*

Degree of risk	Expected Return
Low	5%
Medium	15%
High	25%

In case of medium risky projects those projects will be accepted which give return of more than 15% and those rejected which given return less than 15%. Similarly in case of high risky projects only those projects will be accepted which give return of more than 25%.

#### Minimisation of Risk

The risks may be divided into following two categories for the purpose of minimisation of risk :

- (i) Risks relating to errors in forecasting.
- (ii) Risks relating to factors external to enterprise.

The first type of risk can be minimized by undertaking a scientific data generation process for decision making. After making a realistically pessimistic estimate of all cost, provision for contingencies is provided. This provision is normally provided at 10 per cent of expenditure estimated for the project. This method can be useful in most of the cases but different yardsticks be adopted keeping in mind the nature of the expenditure. For assessing the impact of second category, every aspect of the method used by the enterprise might be examined. Marketing risks can be minimised by :

- (a) Entering into long term contracts with suppliers and customers.
- (b) Entering into collaboration with other producers for specialising in certain products or geographical areas,
- (c) diversifying into certain related and unrelated products.

In the above stated manner, risks associated with technical and financial aspects can be minimized. In nutshell, it can be stated that an enterprise will prepare itself for all future eventualities, taking risks as a challenge and taking such measures which promote both the short and long term interests of the firm.

### 3.28 SOURCES OF FINANCE

There are several sources of finance for entrepreneurs looking to get their business off the ground and one should consider some of these alternative sources before one ask friends and family members for start up money. Generally there are two sources of finance such as, internal and external.

- **Internal Sources:** Internal sources are those, which are owned by the entrepreneur himself and the money is invested as equity. The sources of finance derived from the enterprises assets or activities also come under this category. Entrepreneurs can create financial assistance internally from the following sources:-
  - Personal investment
  - Deposits and loans given by the owner
  - Personal loan from provident fund, life insurance policy etc.
  - Playing back of profits into one's own enterprise.

- **External Sources:-** Several financial institutions like development banks, commercial banks, financial corporations etc. help entrepreneurs raise funds. These are classified as external sources from which the entrepreneur can seek financial assistance as well. Entrepreneurs can create financial assistance from the following sources:-
  - Borrowings from friends and relatives
  - Borrowings from the commercial banks for working capital.
  - Term loans from development financing institutions like IDBI, SIDBI, IFCI, Ltd, ICICI Ltd. Etc
  - Hire-purchasing or leasing facilities from national small industries corporations, State Small Industries Development Corporations, etc.
  - Seek capital loan from the financial institutions as well as commercial banks.
  - Credit facilities provided by different financial institutions as well as commercial banks.

In case of setting up a small scale enterprise, an entrepreneur mostly depends, upon institutional finance for initial capital investment. Very few entrepreneurs rely upon such social sources like friends and relatives and that too as a last resort. Moreover, Indian Institutional finances such as commercial banks and development banks offer financial assistance at attractively low interest rates as compared to other forms of loans. The sources used for funds determine the capital structure of the enterprise which presupposes the relation between debt and equity capital, otherwise called debt equity ratio.

### **3.29 SUMMARY**

Generating ideas is an innovative and creative process. Sometimes the most difficult aspect of starting a business is coming up with a business idea. Even if you have a general business idea in mind, it usually needs to go through fine tuning processes, fruitful ideas often occur at points where the person's skill set, hobbies, interest and also his social networks intersect. In other words, the best ideas for a new business are likely to come out from the activities and people that we already know well.

Project appraisal is a technique used to test whether the project under taken is feasible or not. It involves technical and managerial appraisal. You have understood that to successfully manage a project an organization has to meet certain pre-requisites such as adequate project formulation and effective monitoring. An organization also has to establish certain principles such as identifying the type of business that is conducted by an organization and preparing a plan to establish the scope of a project you have learned that project ideas that are generated are rated according to different factors to select the most feasible project idea. The project analyst, who is mainly responsible for producing project ideas, should have qualities such as open mindedness and confidence to successfully generate project ideas.

### **3.30 SELF ASSESSMENT QUESTIONS**

1. Discuss various sources of business ideas.
2. What are the techniques for generating new ideas?
3. Define project and discuss project identification.
4. What do you mean by project report? And what are its contents?
5. Define project appraisal? Discuss various factors relating to project appraisal.
6. Describe project feasibility study.
7. Define profit & discuss theories of profit.
8. Define risk analysis and discuss various kinds of risk.
9. Describe various sources of finance.
10. Define cost-volume-profit and discuss its objective.

## **UNIT – 4**

### **LEGAL AND STATUTORY ENVIRONMENT FOR SMALL INDUSTRY**

#### **AIMS AND OBJECTIVES**

After going through this unit, you will be able to understand :

- Constitution of small scale business
- Legal formalities in setting of SSIs
- Licensing system of SSIs
- The factories Act.
- Meaning and definition of small scale industry
- Rationales small scale industries
- Role of SSI in economic development
- Government policy towards small scale industry
- Government support to SSI during five year plan
- New policy initiative tips in 1999-2000 for small scale sector.
- Impact of globalization and liberalization on SSI.
- Impact of WTO / GATT on SSI
- Agencies of government for SSI
- Financial Institutions for small scale industry
- Social responsibility of business.

#### **CONTENTS**

- 4.1 Constitution of small scale business
- 4.2 Legal formalities
- 4.3 Provisional Registration
- 4.4 Licensing systems of SSIs
- 4.5 SSI exemption skill as per budget 2003-2004
- 4.6 Rules regarding the Factories Act
- 4.7 Meaning and definition of small scale industries
- 4.8 Characteristics of SSI
- 4.9 Rationale of small scale industry
- 4.10 Objective of SSI

- 4.11 Scope of SSI
- 4.12 Role of SSI in economic development
- 4.13 Advantage of SSI
- 4.14 Government policy : Industrial policy resolutions
- 4.15 Government support to SSI during five year plan.
- 4.16 New policy initiative in 1999-2000 for small scale sector.
- 4.17 Impact of globalization and liberalization on SSI.
- 4.18 Impact of WTO/GATT on SSI
- 4.19 Meaning and need for support
- 4.20 Agencies of Government for SSI
- 4.21 Nature and types of support
- 4.22 Financial Institutions
- 4.23 Social responsibility of business
- 4.24 Meaning and definition of social responsibility
- 4.25 Responsibility of business towards different sectors of society.
- 4.26 Arguments for social responsibility of business
- 4.27 Arguments against social responsibility
- 4.28 Limits of social responsibility.
- 4.29 Barriers of social responsibility
- 4.30 Social responsibility – Indian situation
- 4.31 Summary
- 4.32 Self assessment questions

## **LEGAL AND STATUTORY ENVIRONMENT FOR SMALL INDUSTRY**

### **4.1 CONSTITUTION OF SMALL SCALE BUSINESS**

While deciding on the constitution of business i.e. whether the entrepreneur wants it in the form of sole proprietorship, partnership or a private limited company, he should base his decision on the size of the project and the degree of risk involved. He will have to undertake formalities such as registration of partnership or incorporation of a private limited company but, however, no such formalities are required in case of a sole trader.

#### **Arrangement of Finance for Fixed Assets and Current Assets**

Once the entrepreneurs has obtained necessary clearances, he should apply for a term loan (for fixed assets) to state level financial institutions and/or to a commercial bank along with the business plan (detailed project report) and the documentary evidence required by them. After the loan is sanctioned, he has to execute the necessary legal documents mortgaging assets to them, as decided in the agreement.

The entrepreneur should keep in mind that disbursement of loan amount takes time. It generally begins after he has fulfilled all required conditions and after part of his own capital (margin money) has been raised and invested in the project. As far as the working capital is concerned, the bank would consider sanctioning of the same one after the term loan is sanctioned.

After all the sanctions have been received, he can start with the actual implementation of his project. Therefore, he should lay emphasis on completion of all formalities otherwise the implementation would be delayed leading to cost over runs.

### **4.2 LEGAL FORMALITIES IN SETTING UP OF SSIs**

Various legal formalities are to be completed for setting up a small scale unit. These formalities are as under.

#### **Registration with Director of Industries**

Registration of small scale industrial unit is not compulsory. However registration with the State Directorate of Industries or District Industry centre facilitates obtaining of assistance from the government.

#### **The registration of small scale units is done in two stages i.e. :**

- (i) Provisional registration      (ii) Permanent registration

In case a small scale unit is a subsidiary of or owned by or controlled by any other undertaking, it is subject to the normal licensing provisions under the Industries Development and

Regulation Act, 1951. Provisional registration is made before the setting up of unit and permanent registration is done after the unit commences production.

Small Scale and ancillary units (i.e. undertaking with investment in plant and machinery of less than Rs. 10 million) should seek registration with the Director of Industries of the concerned State Government.

### **Registering SSI Unit**

The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purpose of providing incentives and support services.

States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a SIDO registration scheme and a State registration scheme.

### **Benefits of Registering**

The registration scheme has no statutory basis. Units would normally get registered to avail some benefits, incentives or support given either by the Central or State Govt.

#### **The regime of incentives offered by the Centre generally contains the following :**

- Credit prescription (Priority sector lending), differential rates of interest etc.
- Excise Exemption Scheme
- Exemption under Direct Tax Laws
- Statutory support such as reservation and the Interest on Delayed Payments Act.

(It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI).

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

## **Objectives of the Registration Scheme**

**They are summarized as follows :**

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSI.

## **Features of the Scheme**

**Features of the scheme are as follows:**

- DIC is the primary registering centre
- Registration is voluntary and not compulsory
- Two types of registration is done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given
- PRC is normally valid for 5 years and permanent registration is given in perpetuity.

## **Provisional Registration Certificate (PRC)**

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions / banks under priority sector lending.
- Obtain facilities for accommodation, land, other approvals etc.
- Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

## **Permanent Registration Certificate**

**Enables the unit to get the following incentives / concessions :**

- Income Tax exemption and Sales Tax exemption as per State Govt. Policy
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after 5 years.



## **Procedure for Registration**

### **Features of the present procedures are as follows :**

- A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-II and items not listed in Schedule-I or Schedule-II of the licencing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
- Units applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
- PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
- Once the unit commences production, it has to apply for permanent registration on the prescribed form.

### **The following form the basis of evaluation :**

- The unit has obtained all necessary clearance whether statutory or administrative e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- Unit does not violate any locational restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

## **De-Registration**

**A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration :**

- It crosses the investment limits.
- It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

**Registration with DGS & D/NSIC.** A small scale unit can get itself registered with the Director General of Supplies & Disposal (DGS & D) or National Small Industries Corporation, if it wants to avail the benefit of purchases made for government office.

For this purpose application should be submitted on the prescribed form along with following documents :

- (i) Copies of balance sheet and profit & loss account for the last three years.
- (ii) Income Tax clearance certificate
- (iii) Ownership document in respect of firm's factory and machinery
- (iv) Copies in form A, in case of partnership firm.
- (v) Copies of Memorandum and Articles of Association, in case of a company.

### **Cancellation of Registration**

**The registration of small scale unit can be cancelled on the following basis :**

- (i) The unit remained closed continuously for more than one year.
- (ii) The unit fails to give full and true information required by the registering authority at various intervals of time.
- (iii) The unit has mis-utilized the raw-material allocated to it.

The affected unit is at liberty to file appeal against cancellation of registration.

### **4.3 PROVISIONAL REGISTRATION (PROFORMA)**

The application is accepted for Provisional Registration as SSI/SSSBE unit for the manufacturer of items / activities as stated in the application form.

1. Provisional Registration No. :

--	--	--	--	--	--	--	--	--

2. Date of Issue

--	--	--	--	--	--

3. Category of Unit (S.No. 3) .....

4. Name & Address of unit .....

.....

5. End Products .....


Signature  
Name & Designation of  
Registering Authority

1. The endorsed application form is a part of the certificate of registration.
2. The provisional registration is valid for a period of five years from the date of issue.
3. The provisional registration will automatically lapse at the end of the validity period or the date of commencement of production, whichever is earlier.
4. If an applicant/unit is unable to set up the unit within the validity period, the applicant/unit has the option to apply afresh for provisional registration using standard procedure.
5. The provisional registration is given to enable the unit to obtain all facilities / clearance etc. required in the production stage.
6. The provisional registration is subject to any or all condition that may be imposed by the Registering Authority.
7. Only the procurement of provisional Registration Certificate does not entitle you to any incentives which are otherwise admissible under the package of incentives, 1992 or any other policy of the Govt.

#### **4.4 LICENSING SYSTEM OF SSIs**

##### **(A) Exemption from Licensing**

Section 11 of the Industries (Development and Regulation) Act (IDR) provides that no industrial undertaking shall be established without a license. After obtaining the license, the undertaking has to adhere to various rules as laid by the Central Govt. under section 30.

**According to IDR Act, industrial licence would be required for :**

1. establishment of a new undertaking;
2. substantial expansion;
3. production of a new product;
4. changing the location of an industrial undertaking

In order to maintain the viability and strength of small scale units/undertakings section 11B of IDR Act, SSI are exempted from licensing provisions of the Act.

Section 10, 11, 11A and 13 of the IDR Act would not be applicable to small scale units, subject to the following conditions :

- (1) The articles manufactured are not included in Scheduled I or Schedule II to the notification of new industrial police, dated 24.07.91 or

(2) The articles manufactured are included in Schedule III to the notification dated 24.07.91.

**Schedule I.** Schedule I of the notification relates to items which are reserved for manufacture by public sector undertakings.

**Schedule II.** Schedule II includes those industries which are kept under compulsory licensing.

**Schedule III.** The small scale industries may manufacture those items which are included in Schedule III, which are exclusively reserved for such sector even if they happen to be included in Schedule II.

**(B) Memorandum with SIA**

The small scale and ancillary units are not required to file the Memorandum with the Secretariat for Industrial Assistance (SIA) before any action for setting up of new project or substantial expansion and at the time of commencement of commercial production.

**(C) Carry on Business (COB) Licence**

All undertakings other than small scale industrial undertakings engaged in the manufacture of items reserved for exclusive manufacture in the small scale sector are exempted from the operations of Section 29B of IDR Act but subject to a condition. As per the condition, such undertakings have to export minimum of 50% of the new or additional production. The Government has decided to exempt export-oriented units (EOUs) from obtaining industrial licence, if they manufacture items reserved for small scale units. The exemption would be available even if they had a foreign equity component of over 24%.

If existing small scale and ancillary undertakings exceeds their investment ceiling in plant and machinery (which is 1 crore in case of small scale industry and ancillary industry) by virtue of natural growth needs to apply for and obtain a carry on business (COB) licence. No export obligation is fixed on the capacity for which the COB licence is granted.

**(D) Industrial Entrepreneur Memorandum (IEM)**

If any existing small scale or ancillary industry which is engaged in the manufacture of items exempted from compulsory industrial licencing or items not reserved for small scale industries cross the investment limit prescribed for them, they are not required to obtain COB licence. Such industries, named as de-licensed industries, are required to file an IEM to the Secretariat for industrial Assistance (SIA), Deptt. of industrial Policy & Promotion, Ministry of Industry, New Delhi. They also have to obtain an industrial licence if they are manufacturing items covered under compulsory licensing.

### **(E) Integration of Small & Large industries**

In order to improve the competitive strength of small scale industries, it is imperative to constantly improve and modernize the technique of production.

The entrepreneurs can conclude an agreement with a collaborator for import of technology or in respect of technical transfer without obtaining any clearance from the Govt. provided that royalty payment does not exceed 5 percent of domestic sales and 8 per cent on exports. If, however, lump sum payment is involved in the import of technology, the proposal would require government clearance.

### **(F) State Regulations**

The state govt. in its executive capacity is entitled to lay down the policies and preferences in the interest of the economy. The state govt. has the right to grant fiscal benefits by way of exemption from sales tax, concessional tariff etc. having regard to the industrial policy of the govt. The govt. may modify its industrial policy and grant, withdraw or modify fiscal benefits and exemptions granted from time to time.

### **(G) Environmental Clearance**

Those items which are reserved for small scale sector and need investment of less than Rs. 1 crore, are exempted from obtaining environmental clearance from the Central Government. However, entrepreneurs are required to obtain necessary clearance from the environment angle before setting up an industrial project.

Small scale industries are also exempted from taking the prior approval of Pollution Control Boards before starting operations except for 17 heavily polluting categories. Exempted industries simply have to get acknowledgment of the application form by the Central Pollution Control Board. Such industries with a low pollution load would also not have to obtain periodic renewal consent until the unit changes its process. But these small scale industries which fall in the category of heavy pollution load will have to take the prior approval of Pollution Control Board and get their date scrutinized from time to time before the consent to operate is given. The Govt. also helps the small scale units in getting subsidized financial assistance to aid implementation of pollution standards by setting up common effluent treatment plants.

#### **Heavily polluting categories include items :**

(i) Sugar (ii) Fertilizer (nitrogenous / phosphatic) (iii) Cement (iv) Fermentation and distillery (v) Aluminium (vi) Petrochemicals (vii) Thermal Power (viii) Caustic Soda (ix) Oil Refineries (x) Tanneries (xi) Copper Smelter (xii) Zinc Smelter (xiii) Iron and Steel (xiv) Pulp

and Paper (xv) Dye and dye intermediaries (xvi) Pesticides manufacturing and formulation (xvii) Basic Drugs and pharmaceuticals.

#### **(H) Regulation of Acceptance of Loan**

Section 58A of the Companies Act, 1956 and the Companies (Acceptance and Deposits) Rules prescribe the limits upto which, the manner in which and the conditions subject to which deposits may be invested or accepted by a company either from the public or from its members. In other words, the law lays down various ways in which deposits have to be invested or accepted by a company.

Small scale industrial units registered under Companies Act, 1956 as companies are exempted from the above said provisions of Section 58A of the Companies Act, and the Acceptance of Deposit Rules provided the following conditions are fulfilled :

- (i) the paid-up capital of the company does not exceed Rs. 25 lakhs;
- (ii) the company accepts deposits from not more than 100 persons;
- (iii) there is no invitation to public for deposits;
- (iv) the amount of deposit accepted by the company does not exceed Rs. 20 lakhs or the amount of its paid-up capital, whichever is less.

#### **4.5 SSI EXEMPTION SCHEME AS PER BUDGET 2003-04**

(i) Exemption for SSI goods has been raised to Rs. 3 crore. Value of exempted goods will be included (excluding exports) for calculating eligibility limit of Rs. 3 crores under SSI exemption with effect from 01.04.2003.

##### **(ii) SSI exemption has been withdrawn on the following items w.e.f. 01.04.2003 :**

- (a) Ceramic tiles, printed ceramic tiles made from duty paid tiles outside the factory will be exempted from excise duty;
- (b) Stainless steel patties / pattas used for manufacturing cycles.

#### **Excise Exemptions and Concessions**

Taxes on commodities are generally called indirect taxes, for they are ultimately shifted completely or partially on to the consumer by the producer. Such indirect taxes are first collected from the dealers or producers by the Govt. but later the burden of tax is shifted to the ultimate consumer.

##### **Taxes on commodities may take the following forms :**

- (i) A tax on manufacture or production of a commodity is called excise duty;

- (ii) A tax on the sale of a particular commodity is called general sales tax;
- (iii) A tax on import or export of a commodity is called customs duty.

Excise duty (tax on production of a commodity) tends to raise the price of a commodity which is ultimately borne by the consumer. Excise duty on a commodity may be borne partly by the buyers and partly by the sellers. How much exactly ? It will depend on the degree of elasticity of demand and supply.

Excise exemptions and concessions are given by Govt. to manufactures as a part of fiscal assistance. These concessions are given to both registered and unregistered units. Every person has to undertake manufacturing of goods in accordance with the terms and conditions of licence issued.

**Small scale industries are required to fulfill certain conditions in order to avail of excise exemptions and concessions :**

- (i) Small scale industrial units for the purpose of excise exemption must be a factory as defined in the Factories Act, 1948;
- (ii) The unit shall be engaged in manufacture of goods;
- (iii) Factory, including precincts thereof, should not have more than 49 workers working on any day of the preceding 12 months.
- (iv) SSI unit must be a factory registered with the Directorate of industries.

**Exemptions. The excise exemptions of small scale industrial units are as follows :**

- (1) The small scale and tiny industrial units are not required to pay any excise duty of the value of clearance if excisable goods including value of clearances for export doesn't exceed Rs. 50 lakhs. The limit has been raised upto Rs. 1 crore from 01.09.2000. However, Govt. also exempts the small scale units from payment of duty with reference to value of clearance and in respect of goods from time to time.
- (2) If value of clearances (excluding completely exempted goods) is within 50 lakhs, no declaration need to be filed with the Central Excise.
- (3) No separate accounts are to be maintained by small scale industrial units for excise purpose.
- (4) No monthly return is required to be sent by SSI units to excise office. Only quarterly return needs be sent but only those manufacturers whose sales start exceeding Rs. 30 lakhs and they start paying duty. Those whose sales are already more than Rs. 30 lakhs and are paying duty also have to send a quarterly return.

It is important to know that the eligibility for excise concessions are based on annual turnover and not on registration because the latter is based on investment in plant and machinery.

**Rates of Excise Duty.** (A) The rates of excise duty applicable to manufacturer whose turnover doesn't exceed Rs. 3 crores in respect of clearances for home consumption (including export to Nepal or Bhutan) is as follows.

Value of Clearance	Rate of Duty	Remarks
Upto Rs. 100 lakhs	N. 1	Not to avail CENVAT
Rs. 100 – 300 lakhs	Normal rate of duty	Can avail CENVAT

(B) The rate of excise in respect of specific goods for home consumption (including exports to Nepal or Bhutan) and all clearances of specific goods for captive goods / consumption of the specified goods is as follows :

Value of Clearance	Rate of Duty	Remarks
Up to Rs. 100 lakhs	60% of normal rate of duty	CENVAT credit available
Rs. 100 – 300 lakhs	Normal rate of duty	

Normal rate of duty means the duty of excise specified in the First Schedule of Central Excise Tariff Act and special duty means duty of excise specified in second schedule of the said Act. Central Excise Act 1944 also gives notification from time to time.

**Scheme for Excise Relief for Weak Industrial Unit.** The Govt. of India started a scheme in Oct. 1989 to help weak industrial units to regain their viability by providing a special type of loan named as excise loan. The loan would be available to the applicable industrial units through the designated financial institutions only.

The Scheme for excise relief in the form of excise loan would be available only to that industrial undertaking whose accumulated losses, as at the end of the financial year, have resulted in erosion of 50% or more of its maximum net worth during the immediately preceding five financial years.

Following financial institutions have been designated by the central Govt. to provide excise loans to weak industrial units :

- (i) Industrial Development Bank of India (IDBI)
- (ii) Industrial Finance Corporation of India (IFCI);
- (iii) Industrial Reconstruction Bank of India (IRBI);
- (iv) Such other finance institution which the central Govt. may specify in this behalf.



The amount of loan will be not more than 50% of the excise duty actually paid for three years subsequent to the date of approval of the rehabilitation package by the Empowered Committee. The total amount given by way of such excise loan shall not, in any case, exceed 25% of the overall cost of the Rehabilitation package.

The loan shall be interest free and shall be repayable in instalments in a period of seven years as determined after a moratorium of three years commencing from the date of last disbursement of excise loan.

#### **4.6 RULES REGARDING THE FACTORIES ACT**

The Factories Act, 1948 is a comprehensive piece of legislation which covers all aspects regarding factories, right from registration of factories, the inspecting authorities, provision regarding health, safety, welfare, working hours, employment of adult, adolescent, child, annual leave and penalties.

The main objective of the Factories Act is to ensure healthy and safe working conditions for workers. The Act protects the workers from being subject to undue bodily strain or manual labour.

The Act extends to the whole of India including the State of Jammu and Kashmir. It applies to all the factories defined in the Act including small scale industries and factories belonging to Central or any State Government unless otherwise expressly excluded.

##### **The main provisions of this act are as follows :**

- 1. Definition of Factory.** U/S 2 (m) factory means any premises including the precincts where manufacturing process is carried on and the number of workers is ten or more if manufacturing process is being carried on with the aid of power and twenty or more if manufacturing process is being carried on without the aid of power. Some of the premises like saw mill, railway workshop, composing for the purpose of printing by letter press have been held to be factories.
- 2. Health.** Section 11 to 20 in the Factories Act, 1948 deals with the health of workers in a factory. The objective behind these provisions is to ensure healthy working conditions in the factories. Our constitution requires the respective state to make provisions for securing healthy conditions of work. The state is required to protect the interests of the workers. The act contains the following provisions to safeguard the health of workers : (a) Cleanliness (b) Disposals of wasteland effluents (c) Ventilation and temperature (d) Dust and fume (e) Artificial humidification (f) Overcrowding (g) Lighting (h) Drinking Water (i) Latrines and Urinals (j) Spittoons.
- 3. Safety of Workers.** Safety is another basic and primary requirement in a factory. Unless the worker is ensured safety of work, smooth and proper working cannot be ensured.

The Act provides for the following provisions relating to safety of workers :

- (i) Fencing of machinery
- (ii) Work on or near machinery in motion – only trained males wearing tight fitting clothing. No woman or young person is allowed to clean, lubricate or adjust any part of the machinery while it is in motion.
- (iii) Prohibition of young persons to work at any dangerous machines.
- (iv) Maintenance of striking gear and devices for cutting off power.
- (v) Prohibition of employing women and children near cotton openers.
- (vi) Proper hoists and lifts.
- (vii) Safety on revolving machinery, lifting machines, chains, ropes etc.
- (viii) Proper maintenance of floors, stairs and means of access.
- (ix) Measures for protection of eyes.
- (x) Precautions against dangerous fumes, gases etc.
- (xi) Proper precautions in case of fire.
- (xii) Safety of buildings and machinery.
- (xiii) Appointment of safety officers.

**4. Welfare of Workers.** Every factory has to adopt welfare measures to improve labour productivity, to keep up their morale and have cordial employer – employee relations.

Various provisions regarding welfare under the Act are :

- (i) Working facilities (ii) Facility for storing and drying clothes (iii) Facilities for sitting (iv) First aid appliances (v) Canteen (where number of workers is 250 or more) (vi) Shelters, rest rooms and lunch rooms (vii) Creches (here 30 or more women are ordinarily employed) (viii) Welfare officers.

**5. Other Provisions.** It includes the rules as to the regulation of hours of work of adults in the factories on weekly and daily basis. It also provides for weekly holidays, compensatory holidays, rules regarding night shifts, prohibition of overlapping shifts, extra wages for overtime etc.

**6. Duties of the Employer.** Under the Act, the State Govt. is empowered to make it obligatory for every occupier to :

- (i) obtain approval, licence and registration of factory; failure to apply for registration of the factory and a licence amounts to an offence.
- (ii) the occupier is required to serve a notice at least 15 days before he begins to occupy or use any premises as a factory to the Chief Inspector. The notice must contain the details regarding name and address of the occupier and factory, the address for communication, total horse power installed, name of the manager of the factory etc.
- (iii) ensure healthy, safety and welfare of all workers while they are at work in the factory.

#### **4.7 MEANING AND DEFINITION OF SMALL SCALE INDUSTRY**

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

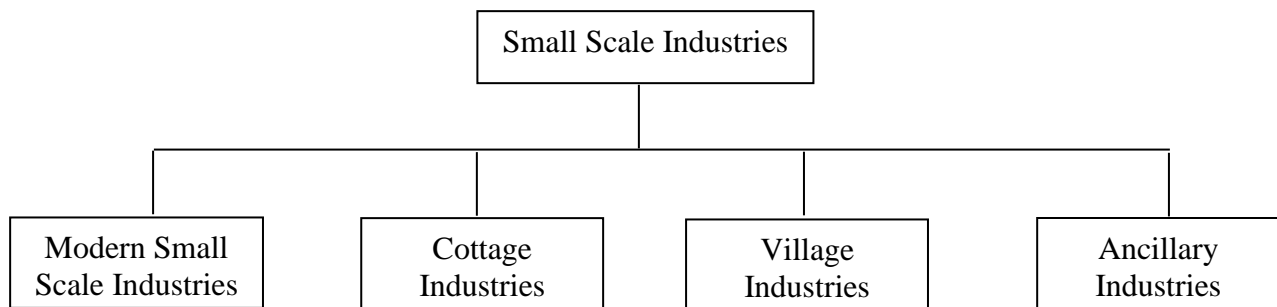
There are at least 50 different definitions of SSI's found and used in 75 countries. In some of the countries. In some of the countries of the world, the criterion for defining small enterprise is related to the size of employment. For example, in USA a small enterprise is one which has employment of 500 people. In UK, it is less than 20 skilled labours, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries, the definitions of SSI are related to either investment or size of employment or both.

The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labour force. On the recommendation of the Federal Association of Small Industries of India (FASI), only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the Table 3.6. An ancillary unit is one which sells not less than 50% of its production of services to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and house-hold industries as shown in Fig. 4.2.

**Table 4.1**

<b>1950</b>	<b>The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labour usually 10 to 50 hands</b>
<b>1954-55</b>	<b>The Government of India set up Central Small Scale Industries Organisation (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.</b>
<b>1960</b>	<b>Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed assets up to Rs. 5 lakhs was called as SSI.</b>
<b>1975</b>	<b>The investment limit was raised to Rs. 10 lakhs (15 lakhs for ancillary units)</b>
<b>1980</b>	<b>The investment limit was rise to Rs. 20 lakhs (25 lakhs for ancillary units)</b>
<b>1995</b>	<b>The investment limit was raised to Rs. 60 lakhs (75 lakhs for ancillary units)</b>
<b>March 1997</b>	<b>The investment limit was raised to Rs. 3 crores</b>
<b>1999-2000</b>	<b>The investment limit was reduced to 1 crore</b>
<b>2007</b>	<b>Limit is 1 crore only</b>

**Table 4.2**

#### **4.8 CHARACTERSTICS OF SSI**

“Small scale industry is beautiful” because of its following important characteristics :

1. Small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others act as sleeping partners.
2. In case of SSI, the owner himself or herself is a manager also and hence, an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business and decision making.

3. The scope of operation of SSI is generally localized, catering to the local and regional demands.
4. The gestation period i.e. the period after which return on investment starts is relatively lower when compared to large units.
5. SSI's are fairly labour intensive with comparatively smaller capital investment.
6. Small units use indigenous resources and therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
7. Using local resources small units are decentralized and dispersed to rural areas. Thus, small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.
8. Small scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

#### **4.9 RATIONALE OF SMALL SCALE INDUSTRY**

Emphasizing the very rationale of small-scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated:

“They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country”.

The rationale of small scale industries so established can broadly be classified into four arguments as discussed below :

1. **Employment Argument :** In view of abundant labour and scarce capital resources, the most important argument in favour of the SSI's is that they have a potential to create immediate large scale employment opportunities. There are many research findings available which well establish that small scale units are more labour intensive than large units. Small units use more of labour per unit than investment. Studies have shown that the output employment ratio is the lowest in small sector, employment generating capacity of small sector is eight to ten times that of large scale sectors. Some scholars oppose this argument. They are of the opinion that employment should not be created for the sake of employment. According to them the

important problem is not how to absorb surplus resources but how to make the best use of scarce resources. Then employment argument becomes output argument.

**2. Equality Argument :** An important argument in favour of small-scale industries is that they ensure a more equitable distribution of national income and wealth. This is based on two major considerations:

- (i) Compared to ownership of large scale units, the ownership of small scale units is wide spread.
- (ii) Their more labour-intensive nature and decentralization and dispersal to rural and backward areas provide more employment opportunities to the unemployed.

Most of these small scale units are proprietary or partnership concerns, the relations between workers and employers are more harmonious in small-scale units than in large-scale units.

Dhar and Lydall do not agree with this argument and give statistical evidence that wages paid to workers in small-units are much lower when compared to the workers in large industries. Workers in small enterprises, due to non-existence of trade unions are unorganized and therefore, are easily exploited by the employers. But in an underdeveloped country like India, even if small-scale units provide low paid jobs, they would be of virtual importance in our economy where millions are already in search employment to eke-out their livelihood.

**3. Decentralization Argument :** Big industries are concentrated every where in urban areas, but small industries can be located in rural or semi-rural areas to use local resources and to cater to the local demands. Hence, it promotes balanced regional development in the country. Though it is not possible to start small-scale industry in every village, but it is quite possible to start small units in a group of villages. Decentralization will help tap local resources, idle savings and local talents and improves the standard of living even in erstwhile backward areas. The good example of this phenomenon is the economy of Punjab which has more small-scale units than even the industrially developed state of Maharashtra.

**4. Latent Resource Argument :** According to this argument, small enterprises are capable of mopping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability etc. Dhar and Lydall feel that the real force of latent resources argument lies in the existence of entrepreneurial skill. According to them, there is no evidence of an overall shortage of small entrepreneurs in India. Hence, they doubt the force of this latent resource argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises ? The emergence of entrepreneurial class requires a conducive environment. The

impressive growth in the number of small enterprises in the post independent period highlights the fact that, providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

#### **4.10 OBJECTIVES OF SSIs**

The various objectives of developing small-scale industries are in fact, implied in one way or other, in its rationale itself. However, an attempt has been made in this section to enumerate the the main objectives of developing small enterprises in India.

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balance regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

#### **4.11 SCOPE OF SSIs**

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and requires less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are :

- Manufacturing activities
- Servicing / repairing activities
- Retailing activities. Financial activities
- Whole-sale business
- Construction activities
- Infrastructural activities like transportation, communication and other public utilities.

In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country initiated in 1967, only 47 items were reserved for

exclusive manufacture in small scale sector. In 1983, the reserved list included 836 items. Later Abid Hussain committee reserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However, the main objective of reservation policy has been insulate the small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

#### **4.12 ROLE OF SSI IN ECONOMIC DEVELOPMENT**

Economic development is defined in a number of ways; the commonest definition could be an increase in real per capital income of a person resulting in improvement in the levels of living'. The development of small-scale industries contributes to the increase in per capital income. The roles of SSI in economic development is given below.

- 1. Employment :** SSI use labour intensive techniques and therefore, provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.
- 2. Optimization of Capital :** SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to mobilize small and scattered savings and channelise them into industrial activities.
- 3. Balanced Regional Development :** SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas



4. **Mobilization of Local Resources :** SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.
5. **Export Promotion :** SSI helps in reducing pressure on the country's balance of payments in two ways. First, they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector
6. **Consumer Surplus :** SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries
7. **Feeder to Large Scale Industries :** SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc, to large scale industries. They serve as ancillary units.
8. **Social Advantage :** Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and independent living to people with limited resources. They facilitate wide participation of public in the process of development.
9. **Share in Industrial Production :** SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.
10. **Development of Entrepreneurship :** Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

#### **4.13 ADVANTAGES OF SMALL SCALE INDUSTRIES**

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and man power.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries.
- Wherever high technology is involved the parent company executive will help. Alternatively, consultants can be hired to sort out technology related problems.

- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.
- In case of rural sector, the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries, the SSI units are a necessity to assist bigger industries and new projects. Thus, they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.
- In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.
- Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.
- The small units are exempted from excise duty upto 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus, lot of paper work and formalities are avoided.
- Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence, there will be no trade union activity.

#### **4.14 GOVERNMENT POLICY : INDUSTRIAL POLICY RESOLUTION**

##### **Major Environment**

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that industrial units in the public and private sector will be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were in great relevance to industrial units. In the field of industry, government's objectives and intensions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in 1948, 1956, 1977, 1980 and 1990. We shall briefly state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policy and activities of the different interface institutions have covered SSE in addition to SSL. The earlier thinking was mostly addressed to SSI.

##### **IPR 1948**

The industrial sector in 1948 was not different from the one existing in pre- 1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making

agricultural implements, a few urban small units and handloom units weaving clothes. The greatest economic significance of these units to the Indian economy was their employment potential. It was this potential which called for protection through policy and the main thrust of IPR 1948 as far as the small scale sector was concerned was protection.

### **IPR 1956**

The second IPR was announced against the background of a bolder Second Five year Plan, with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz. (i) manufacture of consumer goods such as clothes and (ii) manufacture of components for the newly established industry as a part of the programme for long term industrial development. Thus, to the earlier emphasis of protection was added development. Industrial policy for SSI aimed at “Protection plus Development”. IPR 1956 in a manner initiated the modern SSI in India.

### **IPR 1977**

The next IPR was announced a lapse of two decades. During the preceding decades, two major problems had been witnessed. First was the lopsided industrial development – large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment – the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

This situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was : scale of output should be small, location semi urban/rural and technology, labour intensive. This was the IPR which assigned a positive role to SSI in terms of wage employment of worker and self-employment of the entrepreneur. This was the IPR which, therefore, offered a wider perception to policies and programmes for SSI development. To the earlier thrust of protection (IPR 1948), development (IPR 1956) this resolution added promotion. This SSI sector was thus, to be **protected, developed and promoted**.

### **IPR 1980**

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

### **IPR 1990**

This IPR was announced during June 1990. Its basic aim was to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base

of industry and accomplishing higher levels of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology, the investment limit of SSI has been raised to Rs. 60 lakhs.

### **SSI Policy Framework – Latest Amendment**

In line with new economic policies, a policy document for SSI was announced on 6<sup>th</sup> August 1991.

- It continued priority sector lending to SSI by Banks/Financial Institution.
- Excise exemption scheme
- Reservation of items for exclusive production
- Price and purchase preference
- Uniform package of incentives of the entire sector

It introduced new measures like :

- Removal of location restrictions
- Enhancement of coverage limits
- Shift towards infrastructural development support
- Inclusion of services in this sector
- Allowing equity investment in SSI (up to 24%).
- Shift from protection/regulation to promotion of equity, technology and efficiency.
- Substantial de-regulation and simplification of rules and procedures.

**Table-4.2 : Industrial Policy Resolution a summary**

<b>Year</b>	<b>Main Objective</b>	<b>Principal Measure</b>	<b>The SSI Universe</b>
<b>IPR 1948</b>	<b>Protection</b>	<b>Raw material, cheap power, technical advice, marketing of products, safe-guarding against excessive competition from large units</b>	<b>Village-based small enterprises Repairs-cum- job shops Units using local market, raw materials, labour. Hence locally self-sufficient.</b>
<b>1956</b>	<b>Protection plus development</b>	<b>Protect artisan based non-tech enterprise development. Modern SSI for industrial and consumer goods. Provide capital and skill.</b>	<b>Tiny/cottage rural units. Modern SSI units in urban areas. Units employing labour intensive</b>

		Develop export based units. Achieve regional balance through SSI. Package of assistance and incentives, infrastructure, technological up-gradation, Reservation of items for SSI.	technology. New entrants to SSI new entrepreneurs. Ancillary units, Modern SSI.
1977	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production	-do-
1980	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs decentralized production, nuclear plant for SSI growth, reservation products for SSI.	-do-
1990	Promotion of equality, technology and efficiency	Promotion of SSI and agro based industries reservation of products 836 & identified. Central investment subsidy rural and backward areas. Technology centers for modernization, Small Industry Development Bank (SIDBI) acclivities at KVIC and KVI board to be exported to help artisans in marketing. Ago processing industry receive high priority.	-do-

#### 4.15 GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLANS

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans.

**First Plan :** In the first year plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan, six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small Scale Handicraft Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

**Second Plan :** As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place. The total expenditure during this plan towards SSI was Rs. 187 crores. In addition some items were reserved for exclusive production in small-scale industries.

**Third Plan :** The third plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

**Fourth Plan :** The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the forth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

**Fifth Plan :** The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stalking the land. During this plan the expenditure incurred is Rs. 592 crores.

**Sixth Plan :** Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan outlay 836 items were reserved for manufacturing in small scale industries and 409 items reserved for exclusive purchase from small scale industries. In addition, SIDO (Small Industries Development Organisation) was established for providing consultancy services in technical, managerial and marketing. In 1982, CART (Council for Advancement of Rural Technology) was established for providing necessary technical input to rural industries necessary technical input to rural industries. By the end of sixth plan, the production from small and cottage industries increased to Rs. 65,730 crores, exports touched Rs. 557 crores and employment in SSI sector reached 315 lakh persons. This accounts for 80% of the total industrial employment.

**Seventh Plan :** The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was “competition” and “not reservation”.

**B. Seventh Plan :** The actual expenditure of Rs. 3249 crores surpassed the plan outlay of Rs. 2752 crores. The value of production increased from Rs. 57,100 crores to Rs. 91,681 crores.

**Eighth Plan :** The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role. The proposals of this plan are : (i) The plan reiterated that timely and adequate availability of credit is more important than concessional credit. For this purpose SIDBI was established, certain new initiatives like sanction of composite loans under ‘single window system’, concessional loans to state corporations for infrastructural developments were introduced, (ii) Eighth plan proposed to establish tool room and training institutions in order to upgrade

technology (iii) Growth centre approach has been accepted and 70 growth centres were established. In addition establishment of functional industrial estates with agricultural vegetables and horticultural products was also proposed. (iv) Proposed to establish integrated infrastructure development centres for tiny units. For this the centre, the state governments and industry associations were also involved.

#### **4.16 NEW POLICY INITIATIVES IN 1999-2000 FOR SMALL SCALE SECTOR**

The government of India has announced new policy initiatives for small scale sector in 1999-2000. The features of new policy are listed below.

1. A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.
2. To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the office of DC (SSI) to disseminate information to SSI Association and SME units, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO sensitization seminars, workshops.
3. Cotton yarn has been included in the general excise exemption scheme for SSIs.
4. Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.
5. Announcement of a new Credit Insurance Scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI units, particularly export oriented and tiny units.
6. The working capital limit for SSI units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.
7. To increase the reach of banks to the tiny sector, rendering by banks of Non-Banking Financial Companies (NBFCs) or other financial intermediaries for purpose of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.
8. Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of other manufactures in rural areas.
9. The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crores to Rs. 1 crore.

#### **4.17 IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI**

Before the introduction of new economic reforms in 1991 following the inevitable globalization, the SSI sector was overprotected. The small-scale industry never had a strong desire

to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small scale units into large ones and had a stunting effect on manufacturing, employment and output growth.

With the globalization, the SSIs are now exposed to severe competition both from large-scale sector, domestic and foreign and MNCs. The effect of globalization can be summarized as below.

1. The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.
2. The problems of SSI in liberalized environment have become multidimensional; delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.
3. Globalization resulted in opening up of markets leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small scale or large scale has to face competition. The process was initiated for small scale units by placing 586 of its 812 reserved items on the open general license list of imports.
4. With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

In the changed environment after globalization and liberalization, the policies and projects for the SSI sectors will have to be effective and growth oriented (not just protecting) so as to achieve competitiveness.

In order to protect, support and promote small enterprises, a number of protective and promotional measures have been undertaken by the central government. The promotional measures cover the following.

- Industrial extension services
- Institutional support in respect of credit facilities.
- Provision of development sites for construction of sheds



- Provision of training facilities.
- Supply of machinery on hire purchase terms.
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas.
- Technical consultancy and financial assistance for technological upgradation.

#### **4.18 IMPACT OF WTO/GATT ON SSI**

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world wide in favour of the free market forces and tilt away from state regulation / intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows.

The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms. Increased market access to imports will mean opening up the domestic market to large flows of imports. The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy. Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.

SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

#### **1.19 Meaning and Need of Support**

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know very clearly about the type and extent of their

financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host institutions to meet the financial requirements of small entrepreneurs.

Starting an industrial unit requires various resources and facilities. Small scale enterprises, given their small resources find it difficult to have these on their own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. Hence, finance is considered as “life blood” for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activity, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry.

#### **4.20 AGENCIES OF GOVERNMENT FOR SSI**

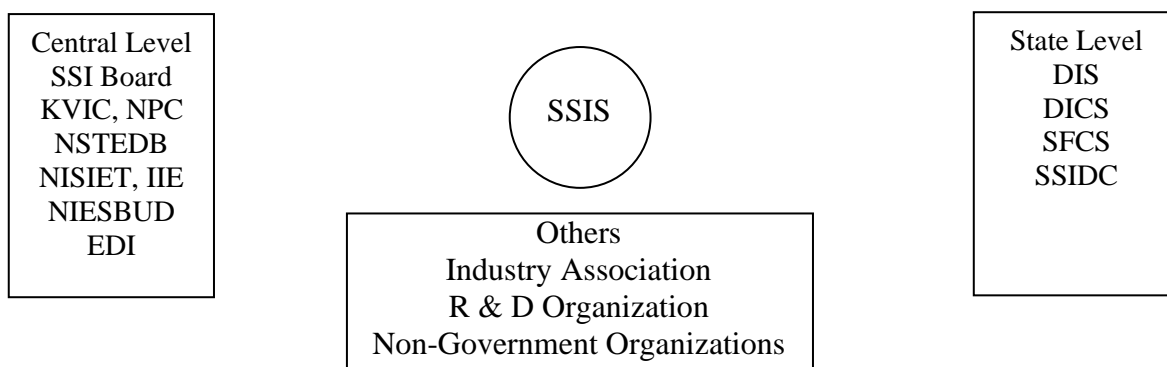
The ministry of small-scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, programmes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/ state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of policies, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organisation (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and various training institutes. The institutional network can be broadly classified as under.

(1) Central level institutions / agencies

(2) State level institutions / agencies

(3) Other agencies



*Institutions supporting small scale industries*

## 4.22 NATURE AND TYPES OF SUPPORT

### (1) Policy Support

- (i). The investment limit for the tiny sector will continue to be Rs. 25 lakhs.
2. The investment limit for the SSI sector will continue to be at Rs. 1 crore.
3. The ministry of SSI and ARI will bring out of specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology up-gradation and to enable them to maintain their competitive edge.
4. The Limited Partnership Act will be drafted quickly and enacted.

### (ii) Fiscal Support

To improve the competitiveness of small scale sector the exemption for excise duty limit rose from Rs. 50 lakhs to Rs. 1 crore

1. The composite loans limit rose from Rs. 10 lakhs to Rs. 25 lakhs
2. The Small Scale Service and Business (Industry related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.

3. In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakh. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.
4. The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.
5. The Department of Economic Affairs will appoint a Task Force to suggest revitalization / restructuring of the State Finance Corporation.
6. The Nayak Committee's recommendations regarding provision of 20 percent of the project turnover as working capital is being recommended to the financial institutions and banks.

**(iii) Infrastructure Support**

1. The Integrated Infrastructure Development (IID) Schemes will progressively cover all areas in the country with 50 percent reservation for rural areas.
2. Regarding upgrading Industrial Estates, which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.
3. A plan scheme for Cluster Development will be drawn up.
4. The funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centres, for cluster development and for setting up of IIDs in the North East including Sikkim.

**Technological Support and Quality Improvement**

1. Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities
2. To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e. till the end of the 10<sup>th</sup> plan.
3. Setting up of incubation centers in Sunrise Industries will be supported.
4. The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.

5. SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.
6. Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.
7. One-time capital grant of 50 percent will be given to Small-Scale, Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

**(v) Marketing Support**

1. SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.
2. The Vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

**(vi) Informational Support**

1. General information
2. Technical / Marketing expertise in specific areas
3. Technical and financial expertise
4. Implementation assistance for turn-key project

**(vii) Incentives and Subsidies**

1. Export-import subsidies.
2. Interest free loans.
3. Subsidy for R & D work
4. Capital investment subsidy
5. Transport subsidy
6. Interest subsidy
7. Subsidy for power generation
8. Exemption from property tax
9. Incentives for NRI
10. Exemption from income tax
11. Sales tax exemption

12. Price preference to SSIs
13. Subsidy/assistance for technical consultancy
14. Exemptions from stamp duty
15. Provisional for seed capital
16. Allotment of controlled for subsidized raw materials.
17. Subsidy for cost of market study/feasibility study or reports.

## **4.22 FINANCIAL INSTITUTIONS**

### **1. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)**

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote, aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small scale enterprises.

- **Single Point Registration** : Registration under this scheme for participating in government and public sector undertaking tenders.
- **Information Service** : NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
- **Raw Material Assistance** : NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
- **Meeting Credit Needs of SSI** : NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
- **Performance and Credit Rating** : NSIC gives credit rating by international agencies subsidized for small enterprises upto 75% to get better credit terms from banks and export orders from foreign buyers.
- **Marketing Assistance Programme** : NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

### **2. SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)**

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI

(Small Industries Service Institutes), 31 extension centres of SISI and 7 centres related to production and process development.

The activities of SIDO are divided into three categories as follows :

**(a) Coordination Activities of SIDO**

1. To coordinate various programmes and policies of various state government pertaining to small industries.
2. To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions
3. Implement and coordinate in the development of industrial estates.

**(b) Industrial Development Activities of SIDO**

1. Develop import substitutions for components and products based on the data available for various volume-wise and value-wise imports.
2. To give essential support and guidance for the development of ancillary units.
3. To provide guidance to SSI units in terms of costing, market competition and to encourage them to participate in the government stores and purchase tenders.
4. To recommend the central government for reserving certain items to produce at SSI level only.

**(c) Management Activities of SIDO**

1. To provide training, development and consultancy services to SSI to develop their competitive strength.
2. To provide marketing assistance to various SSI units.
3. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.
4. To help them get updated in various information related to the small scale industries activities.

**3. SMALL INDUSTRIES SERVICE INSTITUTES (SISI)**

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

*The main functions of SISI include :*

1. To serve as interface between central and state government.
2. To render technical support services.
3. To conduct entrepreneurship development programmes
4. To initiate promotional programmes.

*The SISIs also render assistance in the following areas:*

1. Economic consultancy/information/EDP consultancy.
2. Trade and market information.
3. Project profiles
4. State industrial potential surveys
5. District industrial potential surveys
6. Modernization and in plant studies.
7. Workshop facilities
8. Training in various trade/activities

#### **4. SMALL SCALE INDUSTRIES BOARD (SSIB)**

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

The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

#### **5. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATION (SSIDC)**

(Karnataka State Small Industries Development Authority KSSIDC in Karnataka State) The State Small Industries Development Corporations (SSIDC) were sets up on various states under the Companies' Act 1956, as state government undertakings to cater to the primary developmental needs of the small, tiny and village industries in the state / union territories under their jurisdiction. Incorporation under the Companies Act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefits of the small sector. The important functions performed by the SSIDCs include :

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.



- To provide assistance for marketing of the products of small scale industries.
- To construct industrial estates / sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned and provide management assistance to production units.

## **6. DISTRICT INDUSTRIES CENTRES (DIC)**

The District Industries Centres (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DICs are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DICs are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government. The main functions of DIC are :

1. To prepare and keep model project profiles for reference of the entrepreneurs.
2. To prepare action plan to implement the schemes effectively already identified.
3. To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e. industrial sector, service sector and business sector.
4. To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for importing machineries.
5. To provide guidance for appropriate loan amount and documentation.
6. To assist entrepreneurs for availing land and shed equipment and tools, furnitures and fixtures.
7. To appraise the worthiness of the project-proposals received from entrepreneurs.
8. To help the entrepreneurs in obtaining required licenses/permits/ clearance.
9. To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
10. To conduct product development work appropriate to small industry.

11. To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
12. To conduct artisan training programme.
13. To act as the nodal agency for the district for implementing PMRY (Primary Minister Rojgar Yojana).
14. To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.
15. To help the specialized training organizations to conduct Entrepreneur development programmes.

In fact DICs function as the torch-bearer to the beneficiaries / entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So, the role of DICs in enterprise building and developing small scale sector is of much significance.

## **7. TECHNICAL CONSULTANCY SERVICES ORGANIZATION OF KARNATAKA**

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting , mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing, IT related studies, detailed feasibility studies and reports. TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas through feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition, it offers expert professional services to various institutions and departments of the state and central government. TECSOK undertakes the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys

- Fact-finding and opinion reports
- Corporate planning
- Collection and collation of information
- Impact assessment
- Evaluation of schemes and programmes
- Asset evaluation
- Infrastructure development project proposal
- Event management and publicity campaigns and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced agencies in different disciplines, MBAs, economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

### **Focused Consultancy Areas of TECSOK**

***Promotion of Agro Based Industries :*** TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

***Energy Management and Audit :*** Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

***Environment and Ecology :*** TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka Cleaner Production Center (KCPC) to provide total consultancy support in the area of environment. **Human Resource Development :** TECSOK designs and organizes business development programmes, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage

local entrepreneurs TECKSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka. Other TECSOK activities :

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas
- System study and software development
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

#### **8. SMALL INDUSTRIES DEVELOPMENT BANK OF IDIA (SIDBI)**

For ensuring larger flow of financial and non-financial assistance to the small scale sector, the government of India has set up the Small Industries Development Bank of India (SIDBI), under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows :

- To initiate steps for technological upgradation and modernization of existing units.
- To expand the channels for marketing the products of SSI sector in domestic and international markets.
- To promote employment industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

#### **4.23 MEANING & DEFINITION OF SOCIAL RESPONSIBILITY**

Social responsibility means obligation of decision-makers to take actions which protect and improve the welfare of a society as a whole along with their own interests. Now-a-days the aim of business is no more only profit maximization. There has been growing acceptance of the view that

business should be socially responsible which says the business enterprise which makes use of the resources of society and depends on society for its functioning should discharge its duties and responsibilities in improving the welfare of the society.

Social responsibility refers to the obligations and duties of business to the society. According to K.K. Andrew, “social responsibility may be taken to mean intelligent and objective concern for the welfare of the society.

H.S. Singhanian classifies the nature of social responsibility of business into two categories :

- (a) The manner in which a business carries out its own business activity and
- (b) The welfare activity that it takes upon itself as an additional function.

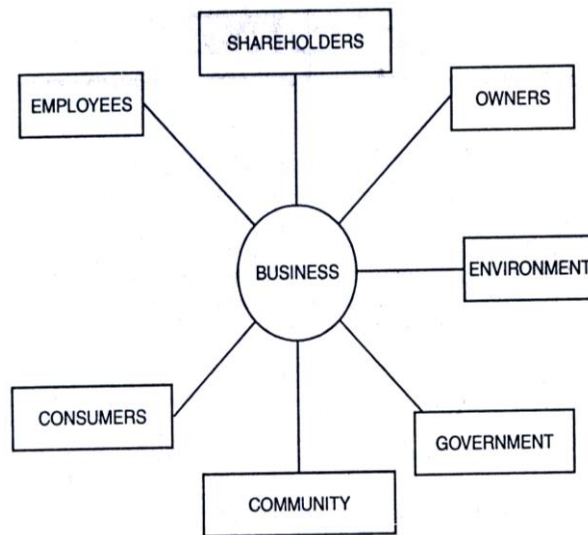
Business is not merely a profit-making occupation but a social function which involves certain duties and requires that appropriate ethics are followed. Social responsibility indicates personal obligation of people, as they act in their own interest to ensure that the rights and legitimate interest of others are not sacrificed by their behaviour and action. The shareholders, the suppliers of resources, the consumers the employees, the local community and society are affected to a great extent by the way an enterprise functions. So it becomes very important for the business enterprise to be socially very responsive to maintain a social balance between the opposing interests of these groups.

#### **4.24 RESPONSIBILITY OF BUSINESS TOWARDS DIFFERENT SECTIONS OF SOCIETY.**

Business depends on society for inputs like money, men, skills and also for market where products have to be sold to the buyers. The business depends on society for existence, sustenance and encouragement. Being so much dependent on society, business also has definite responsibility towards different segments of the society. Though profit making is one of main objectives of business but it has to satisfy employees, consumer, government, community, shareholders also.

**A business is responsible to safeguard the interests of following sections :**

**1. Employees.** No organization can be successful without the whole-hearted cooperation of the employees. Responsibility of business towards employees is in the form of training, promotion, proper selection, fair wages, safety, health worker’s education, comfortable working conditions, participation management etc. The employees should be taken into confidence while taking decisions affecting their interests. The workers should be offered incentives for raising their performance. Mental, physical, economic and cultural satisfaction of employees should be taken care of. If business looks after the welfare of employees then they will also work whole heartedly for the prosperity of business.



The committee that conducted ‘social audit’ of TISCO (Tata Iron and Steel Company) observes, “not only should the company carry out its various obligations to the employees as well as the larger community as a matter of principle, but this has also led to a higher degree of efficiency in TISCO works and an unparalleled performance in industrial peace and considerable team spirit and discipline which have all resulted in high productivity and utilization of capacity”. Thus, by discharging its responsibility to employees the business advances its own interests.

TATAS have been the firsts to the enforcement of certain laws in favour of employees. Similarly Godrej and Boyce, Shriram Industries and TVS groups are also good employers.

Financial position of company and economic conditions of nation should be taken into consideration while spending on labour welfare during performance of responsibility towards employees.

**2. Owners.** Business is accountable towards owners as well as managing business profitably, ensuring fair and regular return on capital employed, consolidating financial position of business, guaranteeing capital appreciation so as to enable the owners to withstand any business contingencies.

**3. Consumers.** Responsibility of business towards consumer extends to :

**(i) Product.** Quality goods should be produced and supplied. Distribution system should make goods easily available to avoid artificial scarcities and after sales service should be prompt. Buying capacity and consumer preferences should be taken into consideration while deciding the manufacturing policies. Top care must be exercised in supplying the goods of quality which has no adverse effect on the health of consumers.

**(ii) Marketing.** To avoid being misled by wrong claims about products through improper advertisements or otherwise, the consumer should be provided full information about the products including their adverse effects, risks and care to be taken while using the products.

Consumers all over the world are, by and large, dissatisfied because the performance of businessman is far from satisfactory. Consumer is not the king of our country but a vehicle used by businessmen for driving towards the goal of profit maximisation. As a result of which the concept of '*consumerism*' has come up to protect the rights of consumers. Even the government is interfering in a big way to protect the interests of consumers.

**4. Government.** A number of legislatures are formed from time to time by the government for proper regulation and control of business. Businessmen should comply with all legal requirements, execute government contracts, pay taxes honestly and in time, make services of executives available for government, suggest measures and send proposals to enact new laws for the business.

But series of raids conducted on business houses clearly show that businessmen have failed to discharge their responsibility towards government.

**5. Shareholders.** Shareholders who are the owners of business should be provided with correct information about company to enable them to give them true and fair position of the company to enable them to decide about further investments. Company should provide a fair return on the investment made by shareholders. If shareholders do not get proper dividend then they will hesitate to invest additional funds in the concern.

Shareholders should be kept fully informed about the working of the company for healthy growth of the business. The Companies Act 1956 also requires the company to give full disclosure in published statements. Company should strengthen the share prices by its growth, innovation and diversification. At the same time shareholders shall also offer wholehearted support and cooperation to the company to protect their own interests.

**6. Community.** Responsibility of business towards community and society includes spending a part of profits towards civic and educational facilities. Every industrial undertaking should take steps to dispose off industrial wastes in such a way that ecological balance is maintained and environmental pollution is prevented. Rehabilitating the population displaced by business units should also be part of responsibility of

business. Business houses should set up units at those places where sufficient space is available for housing colonies of workers. The promotion of small scale industries will help not only the nation but also help in building up a better society.

**7. Environment.** Business should protect the environment which has acquired great importance all over the world. Business can discharge the responsibility of protecting environment in the following way :

(i) **Preservation of Natural Resources.** Scarce natural resources should be used very carefully as these are depleting at a very fast rate. The alternative sources can also be found out to save natural resources like to save forests alternative to wood and pulp can be found, the use, of coal can be reduced by alternative source of energy.

(ii) **Pollution Control.** Appropriate steps should be taken to prevent environmental pollution and to preserve ecological balance. The industrial waste should be disposed off carefully or if possible can be recycled to minimise pollution. The toxic wastes, excessive noise, chemical pesticides, automobile exhaust etc. need to be checked from time to time.

#### **4.25 ARGUMENTS FOR SOCIAL RESPONSIBILITY OF BUSINESS**

1. **Public Requirements.** Business can exist only with public support and only if business fulfills needs of society. One of the main arguments for social responsibility is that public expectations from business have changed. Therefore, if business wishes to remain in existence in long term it must respond to society's needs and give society what society wants. The business must come upto expectations of public for its survival since the demand for products or services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.

2. **Favourable for Business.** Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result have better community in which to conduct its business. People with healthy environment, good health and education will make them good customers and employees. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. Crime rate will also decrease as a result of social improvements.

3. **Moral Justification.** Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore, these large corporations have a moral



responsibility to solve these problems. Also business which is using so many resources of our economy, has responsibility to devote some of these resources in overall development of society.

**4. Socio-cultural Norms.** In a country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations, consumer service will enjoy better social position. A business working against traditional values will face criticism from society.

**5. Business can shoulder Responsibility.** Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a situation, it becomes the duty of business to come upto expectation of public and fulfill its responsibilities towards society.

**6. Responsibility must Correspond with Power.** Business enjoys social power to a great extent. So they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If they don't, then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

**7. Public Image.** Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly which will result in raising the value of shares and debentures held by the owners.

**8. Government Regulations.** If business does not respond positively to the needs of society, then it may be compelled to do so through government laws and regulations. Before government stretches its long arms, the business should discharge its obligations to society. It has to regulate the business in public interest.

**9. Indebted to Society.** Business units benefit from society. In return it also has certain debts that it owes to society. Business uses vast pool of resources in terms of men, talents, expertise and money. Business is in a position to work for social goals with the help of these resources. Also corporations unlike citizens are created by society, so they have certain civic duties and responsibilities.

#### **4.26 ARGUMENTS AGAINST SOCIAL RESPONSIBILITY**

**1. Deviation from Main Objective.** The main goal of business is '**profit** maximization'. Economic efficiency of business is a top priority and any deviation from this would divert the business from its mission. The welfare of employees and owners will also be served well by increasing profitability. Moreover performance of social obligations will also

involve large sums of money which will adversely affect the financial position of the concern. Business's function is economic not social and economic values should be the only criteria to measure the success.

**2. Increase in Prices.** Cost of social responsibility will be passed on to the society in the form of increased prices. When a business house is required to spend money on performing social obligations, the money spent on social welfare will be collected from consumer only by way of increased prices of goods and services. So ultimately it is the consumer only who bears the burden of social obligation.

**3. Excessive Concentration of Power.** Combining social activities with economic activities of business would mean giving business excessive concentration of power. Business has already got enough social power, giving them more social power would mean letting them influence society in education, in home, in government and in market. This way society will also start depending upon business. This influence of business on society may create social, economic and political problems.

**4. Lack of Social Skill.** Businessmen who are good at managing business may not be good at solving social problems. A businessman devotes all his energies in running his business efficiently and smoothly. He may not have the required skill to solve complex social problems. Also why choose a group of people who do not have qualification and skill to solve social problems. The problem has, however, been solved to great extent by institutions, like Xavier Institute of social science and IRMA (Institute of Rural Management, Anand) which train students for social work only.

**5. Lack of Accountability.** Businessmen have no direct accountability to the people. So it is not a wise step to give responsibility to businessmen for areas for which they are not accountable. The management of a business is accountable to the owners for its performance. It is not accountable to anyone for its social obligation.

**6. Influence on Social Set-up.** When business concern spends money in solving social problems then they may try to influence society for their own good. The society will also start depending upon business which in turn may create many social, economic and political problems.

**7. Opposition from Society.** All groups in society may not support the involvement of business in social goals. Although few persons wish the business to become more actively involved in performance of social obligations but at the same time, others may oppose this idea. There is difference of opinion among general public, government and even among businessmen themselves.

**8. Complex Social Problems.** Some social problems like destruction of rain forests, AIDS, ozone depletion, sex discrimination are so complex that even most socially conscientious companies fail to solve these. Also business has its own problems like delivering goods of quality at less price, earn profit for shareholders, paying taxes to government and stand in competitive world. How can we expect business undertake social responsibility amidst so many problems of its own?

#### **4.27 LIMITS OF SOCIAL RESPONSIBILITY**

The social responsibility is a concept which has been well understood by the businessmen today and they are all set to realise the goals of social responsibility. But there are certain factors which limit the social responsibility actions of business houses and these are:-

- (i) Cost
- (ii) Efficiency
- (iii) Relevance
- (iv) Scope

(i) **Cost** : To fulfill and implement social responsibility the main thing required is money. All the actions towards social responsibility involves cost e.g. donations to educational institution, adopting a village or district for different projects like adult education & health etc., construction of hospital, relief to needy people in times of storms, draughts or any other natural calamity. So at times the intentions for social benefit can not be put into actions for paucity of funds.

(ii) **Efficiency** : An effort towards social responsibility actions may bring down efficiency and ultimately the ability to stand in competitive market e.g. a company may continue its business even if it is running into losses with the feeling of its duty towards society and welfare of employees. As a result efficiency will go down. A number of projects being run for the benefit of the society still continue even if the company has to bear losses.

(iii) **Relevance** : How far the task of social responsibility is relevant. This question still remains controversial. Some critics are of the view that business has no social obligation to society. They are of the opinion that business has to ignore and tax its own employees and customers in an effort to fulfill social responsibility. The social problems should be the problem of government or concerned individuals, and business should concentrate on production of goods and services efficiently and effectively. According to Friedman, "There is one and only one social responsibility of business", to use its resources and energy in activities designed to increase its profits so long as it stays within the rules of the game ... (and) engages in open and free competition, without deception and trend ...."

(iv) **Scope** : There are some social problems the permanent solution to which is not in the hands of human beings and those problems are too complex and deep rooted like drug addiction, sex discrimination, ozone depletion, environment pollution. As it is business also has number of complex problems which are to be solved and concentrated upon, so it will be unfair to expect from businessmen to solve another complex problem of social responsibility.

#### **4.28 BARRIERS TO SOCIAL RESPONSIBILITY :**

To fulfill the task of social responsibility the following problems may be faced at organisational level which hinder the process of implementation of achieving the goal of social responsibility.

**(i) The Manager** : The managers are extra cautious while planning and implementing the programmes related to social responsibility as the people at high level may not approve the plans of managers if they feel the plans to be non-profitable to organisation. It is the manager who is ultimately responsible for social action programmes of any organisation. The manager can also plan or implement the social action programme.

**(ii) The Organisation**: The main objective of any organisation is profit maximization as shareholders want dividend ultimately or they may like the profits to be reploughed back for expansion of business and people working in the organisation expect higher & higher salaries. So Social action projects need to be evaluated very carefully in terms of cost and benefit. So social responsibility may be overlooked while achieving the main objective of the organisation i.e. profit maximisation.

**(iii) The Industry** : There are many competitors in the same industry for an organisation. When a particular organisation does some socially beneficial activity for the benefit of society only then it may not be appreciated by other competitors in the industry which makes individual organisation very difficult to survive in the industry alone.

**(iv) The Division** : There are number of divisions in the organisation which are competing among themselves and also strive towards main goal of organisation i.e. profit. Any social responsibility decision and project which affects or reduces the profit might threaten the existence of that particular division. This is one of the main reasons that most of the divisions feel hesitant in initiating and implementing social responsibility programmes unless & until there are clear guidelines and instructions from the people at top level.

#### **4.29 SOCIAL RESPONSIBILITY—THE INDIAN SITUATION**

The concept of social responsibility is very old in India. Businessmen were treated with great respect also because of prevalence of the concept of parting with one's wealth for the benefit

of society. Merchants have always been charitable and provided relief in difficult times of droughts, famine or epidemics. Over the years this practice remained same except the shift from merchant charity to corporate citizenship.

The merchants were leaders not only in the economic but also the social fields and took active interest in social reforms and in public life as well.

J.R.D. Tata was first to conduct social audit in India. Number of leading companies have realized the social responsibility and recognized the concept of social responsibility of corporate sector. Number of schools, colleges, hospitals, research institutes, technological institutes, management institutes, libraries.

Museums, places of religious worship, institutes for old and orphans, have been set up with the help of business community. There has been contributions from many businessmen for the poor and needy in times of draughts, earthquakes, floods and other natural calamities. The problem of damage to ecology is a serious problem now-a-days which has been handled by many businessmen in a every effective way. The number of measures taken to control "Pollution in environment" shows the efforts put in by them with the help of government. Public sector is guilty as private sector as far as the problem of pollution of environment is concerned. There are many public sector enterprises in India which have failed to discharge their primary responsibilities as well.

There has been change in attitudes of society and the business community itself about its obligations to society and the way of expressing it. Now there is more of direct engagement in the mainstream development concerns and in helping disadvantaged groups in the society.

Though the business units in India have started realizing their responsibility towards society, but member of such units is very limited. Government should take legislative measures to force all business units to contribute something for social uplift. Besides legislative measures, awareness about social responsibility should be created. Business should prepare a code of ethics for social upliftment the company law can also make a provision to make it obligatory for units having investment beyond a certain limit to spend a part of their profits on social welfare activities. The companies should also show in their balance sheets the amount they have spent on social obligations.

#### 4.30 SUMMARY

While deciding on the constitution of business i.e. whether the entrepreneur wants it in the form of sole proprietorship, partnership or a private limited company, he should base his decision

on the size of the project and the degree of risk involved. He will have to undertake formalities such as registration of partnership or incorporation of a private limited company but, however no such formalities are required in case of sole trader.

Small-scale industry is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors, the others act as sleeping partners.

- Emphasizing the very rationale of small scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated. That they provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.
- The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology.
- The National Small Industries Corporation (NSIC) an enterprise under the Union Ministry of Industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country.
- The small industries service institutes have been set-up in state capital and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

#### 4.31 SELF ASSESSMENT QUESTIONS

- What are the legal formalities for setting up a small scale industry ?
- What are the legal formalities in Factory Act for setting up a small scale industry ?
- What is the rationale behind the development of small scale industries in India ? And what are its arguments for small scale industry ?
- Discuss the role of SSI in economic development.
- Discuss various government industrial policy resolutions.
- Discuss the impact of globalisation and liberalisation on SSI.
- Discuss various financial institutions which provide finance to the SSI.
- What do you mean by social responsibility of business and discuss arguments for and against social responsibility of business.
- What are the barriers to social responsibility ?
- What are the limits of social responsibility ?

## **UNIT-5**

### **SMALL SCALE INDUSTRIAL UNDERTAKINGS**

#### **AIMS AND OBJECTIVES**

- After going through this unit you will be able to:-
- Understand meaning, definition and characteristics of small scale industry.
- Understand the procedure to start an SSI
- Understand the concept of incentives and subsidies.
- Describe the problems in SSI
- Understand the causes and consequences of industrial sickness
- Describe corrective measures of sickness in industries.

#### **Contents**

- 5.1 Introduction to SSIs
- 5.2 Definition of small scale unit
- 5.3 Characteristics or features of small scale industry or (MSME)
- 5.4 Objectives of small scale industries or (MSME)
- 5.5 Small business as a seedbed of entrepreneurship.
- 5.6 Importance of small scale industry or (MSME)
- 5.7 Problems of Small Scale Industry or (MSME)
- 5.8 Steps to start an SSI
- 5.9 Introduction and meaning of incentives and subsidies.
- 5.10 Need for incentives
- 5.11 Types of central government subsidies and incentives
- 5.12 Foreign direct investment in SSI sector
- 5.13 Problems of small scale industries
- 5.14 Causes of Industrial Sickness
- 5.15 Consequences of Industrial sickness
- 5.16 Remedial Measures of Sickness in Industries.
- 5.17 Summary
- 5.18 Self assessment questions

## SMALL SCALE INDUSTRIAL UNDERTAKING

### 5.1 INTRODUCTION TO SSI

Our first Prime Minister Pt Jawaharlal Nehru said “Sky is the limit for small industry”. India has to its credit of operating the largest and the oldest programme for the development of small scale industry. Even a child knows that the master brain behind the revival of village industries was the father of the Nation, Mahatma Gandhi. He equated Khadi to the 'Sun' of the village solar system and other industries as planets which support the Khadi programme. He said that true swadeshi consists in encouraging and reviving home industries and that alone can help millions. Gandhiji was not against mechanisation. He said “Mechanisation is good when hands are too few for the work intended to be accomplished, it is an evil when there are more hands than required for the work as in case of India.” He was of the opinion that if the government could provide full employment to our people without the help of Khadi and Village industries, he was prepared to wind up his constructive programme of revival of village industries. After independence the government has been giving due emphasis on the development of small scale industry. The Directive Principles of State Policy in the Constitution and Industrial Policies of various Five Year Plans are in tune with the ideas propogated by Mahatma Gandhi. Even the year 1995-96 has been declared as SSI YEAR by the Indian Government Dr. Sh'ankar Dayal Sharma, our Ex President, remarked before giving away the National Awards to outstanding small scale entrepreneurs for the year 1993 "Small scale sector is an important component of our national industrial base and the driving force of our developmental efforts." It is a vital link in the industrialisatiovtv-process which takes modern technology to the people and serves as a pre-requisite for balanced economic growth.

### 5.2 DEFINITION OF SMALL SCALE UNIT

The definition of small scale unit can be categorised in different ways depending on a country's pattern and stage of development, policy aims and administrative set up.

There can be two basis for defining small business and these are.

**I. Scale of Business.** The size or scale of business can be measured in various ways like :

- (i) Investment on plant and machinery.
- (ii) Employment generation.
- (iii) Investment and Employment,
- (iv) Volume and/or value of production,
- (v) Volume and/or value of sales.

**II. Qualitative Aspects. These can be :-**

- (i) Ownership of small business is in the hands of an individual or a few individuals.
- (ii) Management and Control of small scale firm is with the owner or owners.
- (iii) Technology adopted in small scale unit is normally labour intensive.



- (iv) Small scale business is normally carried on in a limited or local area.

In 1916 Indian Industrial Commission defined cottage industries as “Industries carried on in homes of workers which we have designated as cottage industries. In these, operations is small and there is but little organization so that they are, as a rule, capable of supplying only local needs.”

Before Second World War a small concern was defined as a unit having capital invested upto Rs. 30,000 and those concerns having capital in excess of that amount were classified as large scale units.

The definition of small scale enterprise has undergone changes over years with the ceiling raised to take into account the rising cost of machinery as well as falling value of rupee.

### **Definitions of Micro, Small & Medium Enterprises [MSME]**

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified into two classes:

- (a) **Manufacturing Enterprises.** These enterprises are engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951). The Manufacturing Enterprises are defined in terms of investment in plant & machinery.
- (b) **Service Enterprises.** The enterprises engaged in providing or rendering of services and defined in terms of investment in equipment.

The limit for investment in plant and machinery/equipment for manufacturing’s service enterprises, as notified, vide S.O. 1642(E) dtd. 29-09-2006 are as under:

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant &amp; machinery</b>
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipment</b>
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
(Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

**Tiny Industries.** Very small enterprises with an investment of less than Rs. 25 lakh included in the category of Tiny Industries. Capital investments for this purpose means investment in plant and machinery. The locational restrictions for the setting up of Tiny Units have been removed by Small Industries Policy of 1992. The number of persons employed in these units must be less than 50. These units are normally operated under sole proprietorship form of ownership. These units are managed by family members and not professionals which result in lower profit generation.

**Ancillary Units.** Industrial units having an investment in plant and machinery, whether hold on ownership or by lease or by hire purchase does not exceed Rs. 1 crore and engaged or is proposed to be engaged in the manufacture or production of parts, components, sub assemblies, toolings and intermediaries, or the rendering of service and supply or render at least 50 percent its production of services as the cases may be to one or more other industrial undertakings.

**Cottage Industries.** These are also called household industries and are characterised by following features.

They are organised by individual's private resources and with the help of members of the household (including family labour) and are pursued as full time or part time occupation. The capital investment is small and the components used are simple. These industrial units normally use local resources and local skills. The output produced in each industrial unit is generally sold in the local market.

### **5.3 CHARACTERISTICS OR FEATURES OF SMALL SCALE INDUSTRY OR (MSME)**

- 1. Ownership.** Ownership of small scale unit is with one individual in sole Proprietorship or it can be with a few individuals in Partnership.
- 2. Management and Control.** A small scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is actively involved in all the decisions concerning business.
- 3. Gestation Period.** Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.
- 4. Area of Operation.** The area of operation of small scale unit is generally localized catering to the local or regional demand. The overall resources at the disposal of a small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

5. **Technology.** Small scale enterprises are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore these units are more suited for economies where capital is scarce and there is abundant supply of labour.
6. **Resources.** Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.
7. **Dispersal of Units.** Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.
8. **Flexibility.** Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio- economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

#### 5.4 Objectives of Small Scale Industry or (MSME)

The small scale sector can stimulate economic activity and is entrusted with the responsibility of realising the following objectives :-

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

#### 5.5 SMALL BUSINESS AS A SEEDBED OF ENTREPRENEURSHIP

Seedbed refers to the preparing of soil for the sowing of seeds so that we may have good crop. Small business is regarded as a seedbed for entrepreneurship as it provides conducive conditions for the emergence and growth of entrepreneurs. Small scale units employ available technology and can be started with less investment. They are going to use local resources and cater mainly to local demand. These units normally revolve round one individual who is called upon to perform various roles. He is the owner, manager and risk bearer and hence can be called an entrepreneur. The emergence, growth and success of entrepreneurs is linked with the growth of small business. The government of India too has given small scale industry an important place in the framework of economic planning for economic and ideological reasons. Thus setting up of more small scale units will create more opportunities for entrepreneurial development and more and more

educated unemployed will come forward for setting up their own enterprises. It will usher in an era where enterprising persons will assume entrepreneurial career in future.

Small enterprises are called seedbed of entrepreneurship due to the following reasons.

1. Small scale enterprises can be started with lesser investment, which can be contributed by the promoter or arranged from friends and relatives.
2. Small scale units carry on business on a small scale and as such the element of risk too is less.
3. Small scale units are generally based on local resources and as such there is no problem regarding their availability.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. Small scale units generally cater to local demand and necessary modifications can be made in the products keeping in mind the changing demand of people.
7. Small scale units provide ample opportunities for creativity and experimentation.
8. Small scale units have shorter gestation period and hence waiting period for getting return on investment is less.
9. These units are relatively more environmental friendly.
10. Small scale units help in building achievement motivation amongst entrepreneurs.
11. Small scale units are viewed favourably by the government and society because these help in equitable distribution of income & wealth.

Keeping in mind the above potentials of small scale industry as a developer of entrepreneurial talent, the government of India has facilitated this sector by providing it with various concessions and incentives.

## **5.6 IMPORTANCE OF SMALL SCALE INDUSTRY OR (MSME)**

Small scale industries play a very important role in the economic development of our country. The socio-economic development of India depends upon the development of small scale industries. This sector is contributing a lot towards generation of employment, increasing overall production and exports. Highlighting the importance of small scale business even Industrial Policy Resolution 1956 states.

“They provide immediate large scale employment : they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised.”

The second Five Year Plan while recognizing the importance of small scale sector states the following five points.

1. Generation of employment opportunities.

2. An equitable distribution of national income.
3. Mobilization of Capital.
4. Mobilization of entrepreneurial skills.
5. Regional dispersal of industries.

It is evident from the above points that small scale enterprises play an important role in employment generation, resource mobilization and utilisation, income generation and in helping to promote change in a gradual and phase manner. India occupies a distinct position amongst developing countries specifically in the area of development of small scale industries. India has a vast reservoir of scientific and technical manpower and occupies third position in the world as far as technical manpower is concerned. It has already emerged as a leading player in the development of software technology.

The importance of MSMEs can be judged from the following points :-

1. **Employment Generation.** Small scale enterprises employ labour intensive technology and hence generate more employment opportunities. Small scale industries generate opportunities for self employment of technically qualified persons, artisans and professionals. A major problem confronting our country is of increasing pressure of population on land and the need to generate more employment avenues. A given amount of capital invested in a small scale industry provides more employment than the same amount of capital invested in a large scale industry. In a country like India confronted with the twin problems of unemployment and scarcity of capital, it is only the small scale industry which can solve these problems. Small scale industries can be located anywhere and hence can provide employment to workers near their homes, more work for the under employed and additional work for the farmers when they are idle.
2. **Self Employment.** Small scale sector provides numerous opportunities for self employment and hence is more suited for our country faced with the major problem of unemployment. A self employed entrepreneur is the master of his own show and he, thus gets, opportunity for doing something creative, new and different. He instead of seeking job for himself, provides employment to others. Working for himself creates personal interest and successful accomplishment of the task generates job satisfaction and sense of attainment.
3. **Optimum Use of Capital.** Small scale enterprises require relatively lesser amount of capital as compared with large scale enterprises. In the context of Indian economy where capital is scarce, small scale sector can act as a stabilising force by providing high output capital ratio as well as high employment capital ratio. Moreover due to shorter gestation period, small scale units provide early returns to the entrepreneurs. Small scale units help in capital formation by mobilising idle and small scattered savings of the people and put these into

productive use by investment in small scale units. P.C. Mahalanobis has rightly observed "In view of the meagreness of capital resources there is no possibility in the short run for creating much employment through the factory industries (large scale). Now consider the household or cottage industries. They require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen times greater in comparison with corresponding factory industries."

4. **Facilitate Entrepreneurial Development.** Small scale sector helps in entrepreneurial development. The units provide self employment to educated unemployed and reduce their overdependence on the government. It also generates feeling of self reliance amongst the people. This sector generates more employment opportunities with relatively lesser capital investment. Large scale industries cannot provide opportunities to a large number of entrepreneurs, who are scattered over a wide territory. Small scale industries on the other hand can mobilise such entrepreneurial skills more effectively and put these into productive use.
5. **Use of Local Resources.** Small scale enterprises employ local resources like raw material, savings, entrepreneurial skill more effectively. In the absence of these enterprises, these resources are likely to remain unutilised. Thus, on one hand small scale sector ensures better use of the local resources and on the other, generates employment opportunities and income for the local population.
6. **Balanced Regional Development.** Large scale units are normally concentrated at selected places and this results in generation of employment opportunity, income and development of only these places. Whereas small scale industries utilise local resources and promote decentralised development of industries. It is only through dispersal of industries in rural and backward areas that the objective of balanced regional development can be achieved. Small scale sector by providing employment to people in rural & backward areas help in solving the problems of industrial slums, congestion and pollution in industrial towns. Small scale sector by generating employment and income in backward areas help in raising standard of living of people.
7. **Conservation of foreign exchange.** Small scale enterprises help in saving precious foreign exchange. Firstly small scale units utilise local resources like raw material and available machinery and they are not dependent on costly imports. These units also produce those products which were earlier being imported. Secondly there has been considerable increase in exports from the small scale sector over years and presently this sector contributes about 35 percent to India's total exports, thus earning precious foreign exchange for the country.

8. **Equitable spread of income and wealth.** Small scale enterprises help in the development of socialistic pattern of society by ensuring equitable distribution of income and wealth. This sector inculcates the spirit of entrepreneurship amongst people thereby providing them self employment with limited means. Ownership of small scale industries is widespread and offer more employment potential as compared with large scale industries. Large scale industries result in concentration of income and wealth in a few hands and that too at selected places whereas small scale industries ensure equitable spread of income & wealth amongst all and that too at all places. Small scale enterprises thus promote the objective of social justice.
9. **Supporting Large Scale Industries.** Small scale enterprises can facilitate growth and development of large scale industries by providing various parts, components and accessories to large scale industries. Small scale units serve as ancillaries to large units by playing a complementary role.
10. **Contribution towards national economy.** Small scale enterprises have made rapid strides over years and can produce wide range of products having mass consumption. More than 5000 different products are being manufactured in the small scale sector. This sector is helping in realisation of the objective of export promotion and import substitution. Nearly 50 percent of the output of the manufacturing sector in our country is produced by small scale sector. The small scale sector thus play a very important role in the economic development of our country.

#### 5.7 PROBLEMS OF SMALL SCALE INDUSTRY OR (MSME)

Small scale enterprises play a very vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints.

The various problems faced by small scale industries are as under :-

1. **Finance.** Finance is one of the most important problem confronting small scale industries. Finance is the life blood of an organization and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facility are the major causes of this problem. Firstly, adequate amount of funds are not available and secondly entrepreneurs due to their weak economic base, have lower creditworthiness. Neither they are having their own resources nor are others prepared to lend. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations. After nationalization, banks have started

financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate their working adequate credit on easier terms and conditions must be provided to them.

2. **Raw Material.** Small scale enterprises normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors are going to adversely affect the functioning of these units. Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.
3. **Technology.** Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernize their plant and machinery. Due to obsolete methods of production they are confronted with the problems of less production of inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.
4. **Idle Capacity.** There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this underutilization are shortage of raw material, problem associated with funds and even availability of power. Small scale units are not fully equipped to over-come all these problems as is the case with the rivals in the large scale sector.
5. **Infrastructure.** Infrastructural bottlenecks adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical or unviable.
6. **Marketing.** These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market *i.e.* about the competition, taste, liking disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing



less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units, they are placed in a relatively disadvantageous position. In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various governmental agencies like Trade Fair—Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

7. **Underutilization of Capacity.** Most of the small scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day *i.e.* in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments. On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross underutilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.
8. **Skilled Manpower.** A small scale unit located in a remote backward area may not have problem with respect to unskilled workers but it may be exposed to the problem of non availability of skilled workers. Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these persons. Besides non availability, entrepreneurs are confronted with various other problems like absenteeism, high labour turnover, indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, rise in other overhead costs and finally adverse impact on the profitability of these small scale units.
9. **Project Planning.** Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies *i.e.* both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement. They do not bother to study the demand aspect, marketing problems, sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects is not at all given due weight age. Inexperienced and incompetent entrepreneurs often submit unrealistic feasibility reports and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs do not fully understand project details. Moreover due to limited financial resources they cannot afford to avail services of project consultants. This

results in poor project planning and execution. There is both time and cost overrun which adversely affect interests of these small scale enterprises.

- 10. Managerial.** Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves. Thus, he must be fully conversant with all aspects of management. Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur is required to undergo training and counseling for developing his managerial skills. Lack of proper commitment and managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds & consultancy services, lack of creditworthiness, education.

## **5.8 STEPS TO START AN SSI**

### **1. Decision to be self-employed**

This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.

### **2. Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):**

The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of businesses would be the most suitable. This will vary from person to person.

**3. Scanning of Business Environment:** It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.

**4. Training:** Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor-made Entrepreneurship Development Programmes (EDPs) and skill up gradation training programmes for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.

**5. Product Selection:** The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will help in determining the size of business and thus form of ownership. One could

generate as many project ideas as one can through environment scanning and short list a few of them, closely examine with the help of opportunity analysis each one of them and zero on the final product or products.

**6. Market Survey:** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this.

**7. Form of Organization:** A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur's business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.

**8. Location:** The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.

**9. Technology:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one to be identified. This will also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.

**10. Machinery and Equipment:** Having chosen the technology, the machinery and equipment required for manufacturing, the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.

**11. Project Report Preparation:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the report.

**12. Project Appraisal:** Ordinarily, project appraisal implies 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 carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:

- (a) Economical appraisal
- (b) Financial appraisal
- (c) Technical appraisal
- (d) Management appraisal
- (e) Organizational appraisal
- (f) Operational appraisal
- (g) Market appraisal

**13. Finance:** Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise.

**14. Provisional Registration:** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration 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. This will enable the entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/ KVIC.

**15. Technical Know-How:** In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.

**16. Power and Water Connection:** The sites where the enterprise will be located, should either have adequate power connections or this should be arranged. 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. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.

**17. Installation of Machinery:** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.

**18. Recruitment of Manpower.** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labour, administrative staff etc. Further, sources of getting desired labour and staff members be indentured and recruited. Possibly, the labour force has to be trained either at the entrepreneur's premises or in a training establishment.

**19. Procurement of Raw Materials:** Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap and assured sources of supply of raw materials for running his own enterprise. Government agencies can assist in case the raw materials are scarce or imported.

**20. Production:** The unit established should have an organizational setup. 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. Production of the proposed item should be taken up in two stages:

- (i) Trial production
- (ii) Commercial production

Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss in the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

**21. Marketing:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity, etc., have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:

- (i) Test stage
- (ii) Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small Industries Marketing Corporation.

**22. Quality Assurance:** Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product.

If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.

**23. 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 DIC or Directorate of Industries.

**24. 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, upgradation and growth. Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.

**Table 5.2 Sources of information**

<i>S. No.</i>	<i>Area</i>	<i>State Level Agencies</i>	<i>National Level Agencies</i>
1.	Project selection	SISI, DIC, IDC's, IIC's, TCO's,' SFSs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IIC, IFCI, IPB, NRDC, EDI
2.	Registration and licenses	CIF, DDCA, DIC, EB, GMD, SIC, WPCB, IC, LA, STC, TC	CECD, CCIE, ISI, IDC, MIC, NSIC, RC, RT, SC, DGTD
3.	Finance	DIC, Bank, SFC, SIC, IICs, IDCs	CB, CEC, ICICI, IDBI, IFCI, NISC, SBI, DIC
4.	Technical	DDCA, DIC, DJCII TOCs, GMD	CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR
5.	Training	EDPs, SISI, TCDs, DICs	SBI, CB, CIPET, IRL, NISIET, IITs, NISBUT, EDI
6.	Infrastructure facilities	DIC, EB, IDC, LA	
7.	Raw materials	DIC, MID, MDC, SIC, IC, STC	CCIE,MMTC, MDC, SPC
8.	Plant and machinery	DIC, IIC, SFC, SEC, IC, IDB	CCIE, NSIC, SISI
9.	Marketing information	DIC, TCO's, SEC, SIC, RIMCO	DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR

**Table 5.3: Application forms**

<b>S. No.</b>	<b>Subject</b>	<b>Agencies</b>
(A)	Planning Stage	
1.	Provisional registration number	DIC
2.	Application for shed or plot	SIDC
3.	No objection certificate from ideal authorities	LA (Local Authority)
4.	No objection certificate from health department	District health officer
5.	No objection certificate from electricity department	Electricity department
6.	Loan application for term loan	SFC/NB/NSIC
7.	Subsidy registration	DIC
8.	Application for building plan and estimates	Approval of architect contractor
9.	Application for bank account/cash credits/ working capital loan	NB
10.	Application for air and water pollution no objection certificate	State pollution control authority
11.	Application for the approval of production programme for certain restricted items .	DIC, SISI, Central Ministry
12.	Registration of partnership deed	Registrar of firms
13.	Application for ancillary units	Parent companies
14.	Registration of firms	Register of firms
15.	Application for the boilers and plant layout of the unit	Inspector of Boilers
16.	Application for the production of petroleum based product	Ministry of Petroleum
17.	Application for Excise Registration Number	Excise Department
18.	Application for Latex in rubber based products	Rubber Board
19.	No objection certificate from Forest Department for wood based products	State conservation of forests
20.	Applications for essential commodity items as raw materials	District Civil Supply Department

21.	Application for imported raw materials	DIC/Export-Import Boards
22.	Application for imported of machines	DIC/Export-Import Boards
23.	Application for raw materials quota	DIC/Export-Import Boards
<b>(B)</b>	<b>During Implementation of Project</b>	
24.	Application for power connection	Local Electricity Dept.
25.	Application for water	LA
26.	Application for C-Form (Sales Tax)	Sales Tax Department
27.	Application for state Sales Tax Registration	Sales Tax Department
28.	Application for central Sales Tax Registration	Sales Tax Department
29.	Application for exemptions from Sales Tax	DIC/Sales Tax Deptt.
30.	Application for exemption from Octroi Duty	DIC/LA
31.	Application for storing of inflammable raw material	Director of Explosives
<b>(C)</b>	<b>During Running of Enterprise</b>	
32.	Application for Permanent Registration Number	DIC/Directorate of Industries
33.	Application for subsidy claims	DIC
34.	Application for power subsidy	LA
35.	Application for food preservation ordinance license	Food Controller
36.	Application for registration in case of more than 20 employees without power use or more than 10 employees with power use.	Labour Welfare Board/ Employment Exchange/ P.F. Commissioner
37.	Application for product marketing to the Central Government Department	DIC/DGSD

## 5.9 INTRODUCTION & MEANING OF INCENTIVES AND SUBSIDIES

Entrepreneurs in India are offered a number of incentives in order to encourage them to set up small industrial units. As already witnessed, availability of incentives can reduce concentration of SSIs in urban cities and help dispersal of industries over India's vast geographical area. Incentives benefit the economy and assist entrepreneurs shift from traditional technology to modern technology. Adoption of modern technology helps in improving the skills, higher productivity, high wages and better standard of living.



Incentives, is a general term which includes concessions, subsidies and bounties. Oxford dictionary defines an incentive as, "a thing that encourages somebody to do something". A *concession* can be described as, "a reduction in price for particular categories of people". *Subsidy* denotes a single lumpsum given by the Government to an entrepreneur to cover the cost. It is granted to an industry which is considered to be essential in the national interest. The term 'bounty' implies bonus or financial help given by the government to an industry to help it to compete with other units in country or in a foreign market. It is given in proportion to its output. Bounty gives benefits to a particular industry, while subsidy is given in the interest of the nation.

The objective of incentives is to stimulate and motivate an entrepreneur to set up new ventures so that the people and the nation as a whole benefit from that particular venture.

These incentives and subsidies can give following benefits.

- (i) Incentives and subsidies act as a motivational force and push the prospective entrepreneurs to an entrepreneurial line.
- (ii) Entrepreneurs are encouraged to take action and decisive decisions.
- (iii) It encourages entrepreneurs to set up their ventures in those states where incentives are available. Thus, it results in regional dispersal of industries in rural and backward areas. For example, in the State of Punjab, Bhatinda, Ferozpur, Gurdaspur, Hoshiarpur and Sangrur, have been in the list of Industrially Backward Districts in the country.
- (iv) Incentives and subsidies increase the ability of the entrepreneur to face competition.
- (v) More and more young people are encouraged to become entrepreneurs and exploit their skills. Failures also emerge but hidden talent also crops up.

### 5.10 NEED FOR INCENTIVES

Following reasons justify the need for incentives :

- (i) **To Remove Regional Disparities in Development:** It is responsibility of respective state/UT Government to develop village and small industries. By offering better incentives in backward areas, the concentration of industry in cities will reduce resulting in even distribution of industry all over the state. For example, Ludhiana (Punjab) is heavily concentrated for hosiery manufacturing whereas Ferozpur district has been declared as backward with nearly no industry. Similarly, the entire state of Himachal Pradesh, Jammu & Kashmir, Tripura, Manipur and many others have been listed as backward states/ districts in country. Incentives allure the entrepreneurs to overlook the deficiencies of backward areas thus, removing the disparities and utilising the local resources properly.
- (ii) **To Strengthen and Expand the Entrepreneurial Base:** Entrepreneurial development is an index to measure the development of any country. Whether entrepreneurship is taken up out of necessity or as an opportunity, incentives do strengthen them to face and overcome

various problems coming up in their way. Many incentives like reservation of products, infrastructural facilities, laboratory and testing services, export-import incentives etc. encourage the entrepreneurs to take up new ventures with much reluctance and many schemes of SIDBI, commercial banks etc. help them to continue with their existing units.

- (iii) **To Provide Competitive Strength, Survival and Growth:** Central and State governments have a variety of incentives for the industrialists. Some incentives, like seed money are for establishing the new unit while others, like interest free loans, exemption from income-tax are concerned with survival and growth of industries. Some benefits are available only in beginning years of setting up a unit while few are available over a long period. Reservation Policy, for example, comprises 664 products exclusively reserved for production by SSIs. Non-SSIs can also produce the same products but with an obligation of 50 percent exports of the product. Thus, these incentives encourage new comers in the market and also supports the existing industrialists.
- (iv) **Ensure Employment Opportunities.** Establishing a small unit ensures not only self-employment but also generates employment for others and removes the evil of under-employment. Proper availability and usage of incentives and subsidies can make it happen. A prosperous and contented entrepreneur will be a satisfied owner also and would give reasonable wages as well. He will be able to generate a conducive environment and may also move from developed to backward area in order to diversify his unit. As a result, more employment will be generated.

## **5.11 TYPE OF CENTRAL GOVERNMENT SUBSIDIES AND INCENTIVES**

The Government of India (GOI), from time to time, announces various schemes/concessions and support services for the promotion of industries. The aim behind such incentives stimulate prospective entrepreneurs to establish themselves in backward areas and, secondly, to reduce the regional imbalances. Some of the subsidies and incentives are as follows :

**Credit Linked Capital Subsidy.** The GOI launched a new Credit Linked Capital Subsidy Scheme with effect from October 2000. The subsidy is given to upgrade technology of SSIs in selected products and to strengthen the units in the identified sectors to face the competition. The 45 products/Sub-sectors selected sectors, *inter alia*, include leather and leather products, including footwear and garments, food processing, information technology, drugs, pharmaceuticals, auto components etc SIDBI implements this scheme and gives a capital subsidy of 15% per cent on loans and advances to SSI units by scheduled commercial banks and NSIC. The subsidy is extended to SFCs as well. The plan has been continued during eleventh plan from 2006-2011.

**Capital Investment Subsidy.** Capital Investment Subsidy was notified on June 01, 1998 by the Prime Minister for *North- Eastern Region*. Under the Capital Subsidy Scheme, subsidy at the rate of 15 per cent of the investment in plant and machinery is given subject to a maximum ceiling of Rs. 3 million. The subsidy is payable to (i) industry which is located in the growth centres, (ii) to new industrial units, (iii) to industries undergoing substantial expansion in other identified areas in the North Eastern Region. The subsidy is given through the respective state governments.

**Transport Subsidy.** The Transport Subsidy Scheme was introduced in July 1971 to promote industries in hilly, remote and inaccessible areas. The scheme is applicable to the States of Himachal Pradesh, J&K, the North Eastern States, Sikkim, Union Territories of Andaman & Nicobar Islands, Lakshadweep, Darjeeling district of West Bengal and eight hill districts of Uttar Pradesh (now in Uttarakhand State) comprising Almora, Chamoli, Dehradun, Nainital, Pauri Garhwal, Pithoragarh, Tehri Garhwal and Uttarakashi. Under the scheme, a subsidy ranging from 50 per cent to 90 per cent is admissible on transport costs incurred on the movement of raw-materials and finished goods from designated rail heads/parts upto the location of the industrial units and vice-versa. The subsidy scheme has been extended upto March 31, 2007.

**Capital Subsidy for tannery Units.** The subsidy is given for modernisation of tannery units in the country. The capital subsidy is given against purchase of eligible machinery upto 30 percent of cost or Rs. 2.8 million whatever is lower. SIDBI is implementing the scheme for SSI and non-SSI units through its direct and indirect finance routes.

**Collateral-free and Third Party Guarantee free Loans.** The GOI in association with SIDBI set up a Credit Guarantee Fund Trust for small industries during financial year 2000-01. The scheme provides a guarantee cover to the eligible lending institution (e.g. commercial banks) in respect of their collateral free and third party guarantee free loans given to SSIs including IT and software sector. The limit has been raised from Re 1 million to Rs. 2.5 million for borrowing unit.

**Power Subsidy.** Power subsidy is not uniform in all the states/UTs; their nature, contents, quantum and periodicity vary from state to state.

**Incentive for Marketing Development.** Ministry of Commerce. Government of India reimburses the expenditure incurred by SSI delegates that visit foreign countries for the purpose of exploring marketing possibilities. The incentive is given at the rate of 50 per cent of expenditure incurred by the delegation. This incentive is extended for admissible items only.

**Price Preference to SSI Units.** The NSIC extends following incentives to SSI units which get registered under the Single Point Registration Scheme.

- **Availability of tender sets free of cost,**
- **Exemption from payment of Earnest Money Deposit,**
- **Exemption from payment of Security Deposit,**

- **Price preference upto 15 per cent over lowest quotation of the large scale units**

**Availability of Industrial Estate.** Industrial estates which provide industrial area, plots and industrial sheds for allotment to SSI entrepreneurs is implemented through State or UT Governments. These IEs provide infrastructural facilities which include subsidy on rent for factory accommodation, allotment of sheds on hire-purchase as well on outright sale. Other incentives like concessional charges for water and power, exemption from sales tax and Octroi duty etc. are also offered. Facilities of developed roads, banks, canteens, watch and ward, communication network may also exist.

### **State Capital Investment Subsidy**

In order to encourage setting up of Industrial units in their States, State Governments provide State Capital Investment Subsidy to Priority Sector industries. The facilities are available in Uttar Pradesh, Jammu & Kashmir, Andaman & Nicobar Islands, Sikkim, Karnataka, Meghalaya, Himachal Pradesh, Gujarat, Punjab, Andhra Pradesh, Kerala, Maharashtra, Tripura and Manipur.

### **Sales Tax concessions**

State Governments give concessions in sales tax to new units/sick units on the sale of their finished products at the first point of sale for a period of three to fifteen years. The facilities are available in Uttar Pradesh, Jammu & Kashmir, Sikkim, Daman & Diu, Karnataka, Meghalaya, Himachal Pradesh, Gujarat, Nagaland, Punjab, Rajasthan, Andhra Pradesh, Kerala, Haryana and Tripura.

### **Exemption from stamp duty and local taxes**

State Government exempt stamp duty in respect of land allotted by the Government to the new industrial units. Machinery, equipments, raw materials and packing materials of new units are exempted from payment of octroi duty and other local taxes. The facilities are available in Jammu & Kashmir, Sikkim, Daman, Karnataka, Meghalaya, Gujarat, Nagaland, Rajasthan, Haryana, Maharashtra and Manipur.

### **Rebate in electricity charges and water charges**

State Governments provide rebate in electricity charges and water charges to the new and existing units in their respective States. The facilities are available in Sikkim, Daman, Karnataka, Himachal Pradesh, Gujarat, Nagaland, Rajasthan, Andhra Pradesh, Kerala and Maharashtra.

### **Interest Subsidy**

State Governments provide interest subsidy to entrepreneurs on term loans which they get from State Financial Institutions/Scheduled Banks. The facilities are available in Jammu & Kashmir, Andaman & Nicobar Islands, Sikkim, Meghalaya, Himachal Pradesh, Punjab, Rajasthan, Andhra Pradesh and Manipur.

### **State Transport Subsidy**

Some State Governments provide State transport subsidy and notified rates from time to time to industrial units on transportation of raw materials and finished products. The facilities are available in Jammu & Kashmir, Andaman & Nicobar Islands, Nagaland and Manipur.

### **Subsidy for technical know-how**

State Governments provide subsidy on the cost of technical know-how obtained by small scale industries from reputed and well established research and development organizations. For obtaining such technical know-how, prior permission from State Governments has to be obtained. The facilities are available in Jammu & Kashmir, Sikkim, Delhi, Kerala and Manipur.

### **Marketing Support**

The State Government Departments, Semi-Government Organizations, Autonomous Government Organizations, Grant-in-Aid Institutions, Departmental Undertakings, etc. while making purchases of their requirements of store items, give preference to the products manufactured by the local SSI units. The facilities are available in Jammu & Kashmir, Sikkim, Nagaland, Delhi, Kerala, Manipur and Tripura.

### **Special facilities for export oriented units**

State Governments provide special package of incentives and better infrastructural facilities for export oriented units. State Governments reimburse costs incurred by SSI units for shipment of export samples from the nearest port/container depot to the port of destination. The facilities are available in Uttar Pradesh, Karnataka, Himachal Pradesh, Punjab, Rajasthan and Tripura.

### **Air Freight Subsidy**

State Government provide Air Freight Subsidy to SSI units on their finished goods for any destination. The facilities are available in Uttar Pradesh.

### **Incentives to Non-Resident Indians (NRIs)**

State Governments provide special incentives for setting up new industries by NRIs in their respective States. The facilities are available in Uttar Pradesh, Himachal Pradesh, Punjab and Rajasthan.

### **Special incentives for Women**

SSI units owned and managed by women entrepreneurs having more than 80% women labourers are provided special incentives like 50% subsidy for building and machinery, rent subsidy, managerial grant, stipendary training, etc. The facilities are available in Tripura and Kerala.

### **Incentive for ISO 9000/ISO 14001 Certificates.**

The government introduced this incentive scheme for their technological upgradation/quality improvement and environment management. The scheme provides incentive to these small scale undertaking who have acquired ISO 9000/ISO 14001 certificate.

The scheme envisages reimbursement of charges of acquiring ISO- 9000/ISO-14001 certification 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 2007.

**National Award for outstanding Entrepreneurship in Micro & Small Enterprises engaged in manufacturing.**

1. First National Award Rs. 1,00,000/- -cash prize, a Trophy and a Certificate.
2. Second National Award Rs. 75,000/- cash prize, a Trophy and Certificate.
3. Third National Award Rs. 50,000/- cash prize, a Trophy and a Certificate.
4. Special National Award to outstanding Woman Entrepreneur Rs.1,00,000/- cash prize, a Trophy and a Certificate.
5. Special National Award to outstanding SC/ST Entrepreneur Rs.1,00,000/- cash prize, a Trophy and a Certificate.
6. Special National Award to outstanding Entrepreneur from NER including Sikkim Rs.1,00,000/- cash prize, a trophy and certificate.

**National Award for outstanding Entrepreneurship in Micro & Small Enterprises rendering services.**

1. First National Award Rs. 1,00,000/- cash prize, a Trophy and a Certificate.
2. Second National Award Rs. 75,000/- cash prize, a Trophy and a Certificate.

**National Award for outstanding Entrepreneurship in Medium Enterprises engaged in manufacturing.**

1. First National Award Rs. 1,00,000/- cash prize, a Trophy and a Certificate.
2. Second National Award ,Rs. 75,000/- cash prize, a Trophy and a Certificate.

A Special "Recognition Award to those MSMEs scoring marks above 80 percent and (50 percent in case of North Eastern Regions including Sikkim) will be given with a Cash prize of Rs. 20,000/- each, a Certificate and a Trophy at the State Level Function to be organized by Director, MSME-DI.

The awards will be presented in a public function.

**Periodicity & Eligibility**

The Awards will be given for every calendar year to deserving entrepreneurs managing Micro, Small and Medium Enterprises having permanent registration/have filed Entrepreneur's Memorandum with the authorities notified by respective State Governments/UT Administration in accordance with the provisions contained in the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, which has since come into force from 2 October 2006. The MSMEs should have been in continuous production/servicing at least during last four years.

## **5.12 FOREIGN DIRECT INVESTMENT IN SSI SECTOR.**

- (i) To provide access to capital market and to encourage modernisation and technological upgradation, equity participation upto 24 per cent of the total shareholding is allowed in SSIs by other industrial undertakings including foreign collaborators.
- (ii) To encourage and promote the acquisition of technological capability, mechanism for foreign technology agreements have been simplified. No permission is necessary for hiring foreign technicians and hence no application needs to be made to the government for this purpose.
- (iii) Use of foreign brand names/trade marks on goods for sale within the country has been permitted.
- (iv) Procedure has been simplified for investment by NRI and Overseas Corporate Bodies (OCBs), which are predominantly owned by NRIs. OCBs are those companies in which NRIs hold at least 60 per cent of the equity.
- (v) The RBI accords automatic approval to all proposals from NRIs and OCBs by permitting NRI investment upto 100 per cent equity in high priority industries. The approval includes full benefits of repatriation of capital invested and income accruing thereon.
- (vi) 100 per cent equity investment in industries reserved for the small scale sector is permitted to NRIs and OCBs, provided the export obligation criteria (*i.e.* export of 50 per cent of the production) is undertaken by the unit.

### **Incentives of Exporters**

- (i) **The Special Import Licence which was required to be obtained has been abolished from April 01, 2001,**
- (ii) **Import of second hand capital goods (less than 10 years old) is allowed without obtaining any licence or surrender of SIL.**
- (iii) **Export Promotion Capital Good Scheme is extended to all sectors and to all capital goods without any threshold limit on payment of 5 per cent of duty,**
- (iv) **Units set in the Special Economic Zones will be treated as being outside the custom territory.**
- (v) **In order to give recognition to the established exporters and large Export Houses to build up marketing infrastructure and expertise required for export promotion, a scheme of Export Houses, Super Star Trading Houses was initiated. Under this scheme, registered exporters are granted the status of Export Houses/Trading Houses/Star Trading/Super Star Trading Houses subject to certain requirements.**

### **Participation in International Fairs/Exhibitions**

The capability of SSI products is reflected by the fact that it has share of about 34% in national exports. In case of readymade garments, leather goods, processed foods, engineering items, the position of SSI in terms of value and their share within the SSI sector has been commendable. In some cases like sports goods they account for 100% share to the total exports of the sector.

If small scale industrialists want to exhibit their product in the international exhibitions, the whole expenditure on account of space rent, handling and clearing charges, insurance and shipment charges etc. are met by the-office of Development Commissioner (Small Scale Industries) under one of the plan schemes. The basic objective behind the scheme is to promote exports. The strategy has been found to be successful for exporters from small scale sector in identifying new foreign buyers markets.

With a view to acquaint SSI exporters of the latest packaging standards, techniques etc for exports, training programmes are organised in various parts of the country in association with Indian Institute of Packaging. Thus, entrepreneurs get educated about the scientific techniques of packaging and get sensitized about the international standards of packaging.

Technical and managerial consultancy services to SSI manufacturers and exporters is provided through a net of field officers of this office.

### **Purchase and Price Preference Policy for Marketing SSI Products.**

The policy of reservation of items for exclusive purchase from SSI sector has been in vogue since late 60's as a measure of marketing support to SSI sector. The Store Purchase Policy of the government prior to 1989 was in the form of categorization of items and was divided in six major groups.

However, with effect from July 28, 1989, the Purchase Policy of the government was reduced to two major groups :

- (i) Items of stores were reserved for exclusive purchase from KVIC/Women's Development Corporations/Small Scale units and
- (ii) Others not so reserved. The first group comprised of 409 items earlier reserved for exclusive purchase from small-scale sector.

The list of 409 items was reviewed recently and a list of 358 items including 8 handicrafts items reserved for purchase from the Handicraft Sector was revised in the year 1998.

- (iii) Prime Minister's Rozgar Yojana (PMRY). PMRY, implemented since 1993, is designed to create and provide sustainable self-employment opportunities to one million educated unemployed youth in the country during the 8th Plan Period. The Scheme has been modified from time to time.



### 5.13 PROBLEMS OF SMALL SCALE INDUSTRIES

We have discussed so far the distinguished peculiarities of small-scale industries. We have found that the organizational pattern of these industries places them at a distinct disadvantage *vis-a-vis* the large sector. This disadvantage has given rise to various problems with which the small-scale industries have to contend. We discuss them below in some detail.

1. **Problem of Raw Material**—A major problem that the small-scale industries have to contend with is the procurement of raw material. The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials and (iii) a high cost. Earlier, the majority of small-scale units mostly produced items dependent on local raw material. Then, there was no severe problem in obtaining the required raw materials. But, ever since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem with more severity mainly due to difficulty in obtaining this raw material either on account of the foreign exchange crisis or some of other reasons.

Even the small units that depend on local resources for raw material requirements face the problem of other type. An example of this type is handloom industry that depends for its requirement of cotton on local traders. These traders often supply their cotton to the weavers on the conditions that they would sell their ready clothes to these traders only. Then, what happens that the traders sell cotton to them at a fairly high prices and, on the contrary, purchase the ready clothes at a very low prices. This becomes a clearest example of how the poor weavers are subjected to double exploitation at the hands of traders.

Keeping in view the raw material problem of small-scale industries, the Government makes provisions for making raw material available to small units. Nonetheless, small units with no special staff to liaise with the official agencies, these small units are left with inadequate supplies of raw material. As a result, they have to resort to open market purchases at very high prices. This, in turn, increases their cost of production, and, thus, puts them in an adverse position *vis-a-vis* their better and larger rivals.

2. **Problem of Finance**—An important problem faced by small-scale industries in the country is that of finance. The problem of finance in small-sector is mainly due to two reasons, *firstly*, it is partly due to scarcity of capital in the country as a whole and *Secondly*, it is partly due to weak creditworthiness of small units in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and are, thus, exploitative in character. It is a happy augury that ever since the nationalisation of banks in 1969, the credit situation has improved still further. The positive change in attitude of banks would be

clear from the fact that whereas the amount of credit outstanding (of public sector banks) to small-scale industries stood at only Rs.251 crores in June 1969, it rose to a staggering figure of Rs.15,105 crores in March 1990.

From the above figures, it appears that the availability of institutional credit to small scale industries is certainly increasing. Nevertheless, the fact remains that the criterion of 'credit worthiness' still weights heavily with the nationalised commercial banks. This would be clear from this fact that of the units assisted by commercial banks upto June 1976, about 69 per cent of the total credit was availed of by 11 per cent of the (bigger) units in the small-scale industries sector, which accounted for 55 per cent of the total production. This underlines the need to change the outlook of the banks. For this, it is necessary to further liberalise the rules and practices of banking in the country.

**3. Problem of Marketing**—One of the main problems faced by the small-scale units is in the field of marketing. These small units often do not possess any marketing organisation. In consequence, their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from comparative disadvantages *vis-a-vis* large-scale units.

In order to save small units from this competitive disadvantage, the Government of India has reserved certain items for the small-scale sector. The list of reserved items has continuously expanded over the period and at present stands at 824 items. Besides, the Trade Fair Authority of India and the State Trading Corporation (STC) help the small-scale industries in organising their sales. The National Small Industries Corporation set up in 1955 is also helping the small units in obtaining the government orders and locating export markets

Ancillary units face the problems of their own types like delayed payment by parent units; inadequacy of technological support extended by parent units, non-adherence to quality and delivery schedules, thus, disturbing the programmes of the parent unit and absence of a well-defined pricing system and regulatory laws.

**4. Problem of Under-Utilization of Capacity**—There are studies that clearly bring out the gross under-utilization of installed capacities in small-scale industries. According to Arun Ghosh, on the basis of All India Census of Small-Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 40 to 50 percent of capacity was not utilized in small-scale units.

The very integral to the problems of under-utilization of capacity is power problem faced by small-scale industries. In short, there are two aspects to the problem: One, power supply is not always available to the small units on the mere asking, and whenever it is available, it is rationed out, limited to a few hours in a day. Second, unlike large industries, the small-scale industries

cannot afford to go in for alternatives; like installing own thermal units, because these involve heavy costs. Since small units are weak in economic front, they have to manage as best as it can within their available meagre means.

**5. *Other Problems***—In addition to the problems enumerated above, the small-scale industries have been constrained by a number of other problems also. According to the Seventh Five Year Plan, these include technological obsolescence, inadequate and irregular supply of raw materials, lack of organised market channels, imperfect knowledge of market conditions, unorganised nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power etc. and deficient managerial and technical skills. There has been lack of effective co-ordination among the various support organisations set up over the period for the promotion and development of these, industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into economic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted in a skewed cost structure placing this sector at a disadvantage vis-à-vis the large scale industries both in the domestic and export markets.

#### **5.14 CAUSES AND CONSEQUENCES OF INDUSTRIAL SICKNESS**

##### **CAUSES**

So far as the causes of industrial sickness are concerned, it cannot be attributed to a single factor alone. In fact, it is an ultimate result of the cumulative effect of many factors/ causes working simultaneously which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

1. External or Exogenous Causes, and
2. Internal or Endogenous Causes.

Let us discuss these in turn.

I. External Causes: The external or exogenous causes which are beyond the control of the industry usually affect the industry-group as a whole. There may be several external factors causing a unit sick and which may vary from time to time from industry to industry and even from one point of time to another for the same industry. The important external factors causing industrial sickness include the following:

- (i) Changes in the industrial policies of the Government from time to time, (ii) Inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour.
- (iii) Lack and shrinkage of demand for the product.
- (iv) Recessionary trends hovering in the economy.
- (v) Frequent industrial strikes and labour unrest.

- (vi) Shortage of financial resources especially working capital.
- (vii) Natural calamities like drought, floods, etc.

In view of the nature of all these factors, these can broadly be classified into three categories: (i) Government Policy, (ii) Environment, and (iii) Natural Calamities.

**II. Internal Causes:** Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various functional areas like finance, production, marketing and personnel. Many studies have brought out the fact that sickness is normally caused by internal factors, in one way or other, related with the mismanagement in various operational areas (see Table 5.3).

**TABLE 5.3 Cause wise Distribution of New Projects in Default**

<i>Causes</i>	<i>No. of Projects</i>	<i>% of the Projects</i>	<i>Contribution of Cause Default</i>
1. Lack of good management	36	16.1	22.19
2. Poor Implementation	56	15.1	21.70
3. Marketing Problems	29	13.1	15.81
4. Non-Availability of Raw Materials	53	23.8	13.45
5. Shortfall of Working Capital	03	1.4	7.20
6. Labour Trouble	12	5.4	5.74
7. Technical/Operational Problems	13	5.3	5.55
8. Other Problems	21	9.4	8.36
Total	223	100.0	100.00

Majority of projects (53.8%) are found in default due to internal causes like problems of poor management, poor implementation, shortage of working capital and operational and labour problems.

Sandesara has delineated sickness from the angle of stages in which it may be routed. In the planning and construction stage, the unit may be found to be located at an uneconomic location, to have adopted an inefficient method of production or to be planning to produce an obsolete product. In the second stage of sickness, the unit may have committed some mistakes in recruitment and training of the workers, underestimates of various inputs such as powers, funds etc., which cannot be easily corrected later. The third and final stage of sickness may arise even when the unit is in full swing but the demand for product may have changed, new and advanced methods of production may have devised and meanwhile new competitors may also have emerged.

Instances are gallore to note that small scale units are mainly beset with external factors while large sick units are plagued by internal factors.

Small in India is literally too small. According to *Economic Survey 1992-93*, about 90% of sick units lie in small scale sector. A too small unit cannot withstand fluctuation setbacks, frequent changes in government policies, market changes, etc. Small operates on very small margins and a small error can make the unit sick. Small units command small resources and expertise both in absolute and relative terms. Small is basically poor and unorganised set of the industry. These units work with large number of handicaps and constraints. All these shortcomings ultimately make small scale units highly prone to sickness.

### **5.15 CONSEQUENCES OF INDUSTRIAL SICKNESS**

The main evil effects/consequences of industrial sickness on an economy have been locking up the economy's financial resources, wastages of scarce capital assets, loss of production and increase in unemployment. An attempt has been made in this section to discuss the various consequences of industrial sickness in a more orderly manner:

**Huge Financial Losses to the Banks and the Financial Institutions:** The banks and the financial institutions provide substantial funds to start an industry. To quote, by March 1992, the amount of outstanding bank credit against the sick units have reached a staggering figure of Rs.11,533.30 crores. These huge funds are locked up in 1336 non-SSI sick units and 245575 small sick units and 813 weak units. Obviously the locking up of substantial funds in the sick industrial units impinges on the future lending capacity of the banks and the financial institutions. Further, recovery of overdue takes an unduly long period of time and in many cases only a small portion of overdue amount is finally recovered. Thus, these bear an adverse effect on the financial health of the banks and the financial institutions.

**Loss to Employment Opportunities:** One of the serious consequences of industrial sickness has been loss to employment and, thereby, aggravating the most dangerous socioeconomic problem of unemployment in a labour surplus economy like ours. According to an estimate, nearly 30 lakhs of workers are likely to be affected by the closure of sick and weak units. In relative terms, about 6% of total employment in industrial sector is likely to be affected by industrial sickness. Out of total 30 lakh workers likely to be affected by closure of sick units, even more than two-thirds (68%) of total will be rendered jobless in small sector alone. This presents a grim prospect in the employment scenario of the country.

**Emergence of Industrial Unrest:** The closure of sick units causes not only unemployment, but leads to industrial unrest also. Whenever the workers are retrenched and rendered out of jobs, the trade unions oppose it and resort to industrial strikes. Such disturbances threaten the peace and tranquility of the industrial environment. This results in setback to industrial production.

**Adverse Effect on Prospective Investors and Entrepreneurs:** Industrial sickness adversely affects the prospective investors and the entrepreneurs also. Due to sickness, the share

price of the unit tumbles down which, in turn, adversely affects the stock market of the country. In this way, industrial sickness creates a psychology of despair for investments amongst the prospective investors. Added to this, the failure and closure of a unit acts as an unhappy example of disincentive to the prospective entrepreneurs who are planning to plunge into the same lines of production. On the whole, the industrial climate becomes non-conducive for the industrial development of the economy.

**Wastages of Scarce Resources:** In an under-developed economy like ours, the resources are already scarce. If these scarce resources are locked up in sick units, it becomes the wastage of scarce resources which otherwise invested would have yielded substantial returns to the economy.

**Loss of Revenue to the Government:** The government raises a substantial portion of its revenue from industrial units by way of various taxes and duties levied on them. But, when a large number of industrial units becomes sick, the possibilities for raising substantial revenue from the sick units by way of various levies are greatly reduced. Thus, industrial sickness results in loss of revenue to the Government also. The shortage of revenue ultimately affects the functioning of the economy as a whole.

The Planning Commission commenting on the consequences of sickness mentions: “The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders infructuous capital investment and generally creates an adverse climate for further industrial growth. While in advanced countries where there are adequate social security benefits, this is accepted as a normal feature of industrial scene. But such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce.... clearly the problem of industrial sickness is an area to which the Government must give priority.”

In nutshell, whatever may be causes, the consequence is always the same: Loss of employment and production to an economy already suffering from chronic unemployment and shortage of goods. Thus, industrial sickness is a bane on the Indian economy.

#### **5.16 REMEDIAL MEASURES OF SICKNESS IN INDUSTRIES**

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realisation of urgency to the solution of the sick industry problem in India. Therefore, this section deals with the remedial measures to detect the fast spreading disease of sickness in industries.

1. Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It will not be less than correct to argue that delayed identification

of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.

2. In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness. The time has come to substitute the adage that '*what cannot be cured has to be endured*' by '*what cannot be cured should be ended*'. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labourers displaced due to unit closure is prevalent in the society.
3. At present, the attitudes of three different sets of a unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently. For example, management seeks freedom to close the unit if it feels it is no more viable. Financial institutions think that whatever can be salvaged should be salvaged. Labour view is that in the event of the closure of the unit, they will lose job, provident fund and other benefits, therefore, the unit should continue production. Thus, all the three drag in different directions. But, if these diverse view points could be properly integrated, their approach could be integrated and their interests could also be converged, the unit can be salvaged in the best interest of all three.
4. It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large scale industries.
5. It is found that the rehabilitation programmes for sick small units are often carried out in an *ad hoc* and haphazard manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit etc. However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.
6. Having taken a decision to rehabilitate a sick unit, the programme should be finalised quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates position and revival becomes a distant goal. At the same time, the

rehabilitation programme need to be implemented in full as a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit. For instance, if the need-based funds are not released in full, the unit may not be able enough to operate above the breakeven point. As a result, the unit may continue incurring losses and the additional working funds may also be wiped out to meet such losses.

7. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small scale industry borrowers to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take appropriate action.
8. Last but not the least, past experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all. To quote, an entrepreneur may have land, building, machinery etc., but had no experience in functional areas like production and marketing. Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through the training programmes like Entrepreneurship Development Programme (EDP).

#### **5.17 SUMMARY**

Small scale sector is the best option for a country like in India where in on one hand there is acute problem of unemployment and on the other hand scarcity of capital. SSIs in India play a major role in contributing towards the progress in the economy of the country. This unit detailed you about the steps to start a SSI and various sources of information. Now you are aware of the incentives and subsidies which encourage them to set up small scale units. This unit has also made you understand the problems of SSIs. It also helps us to know the causes and consequence of industrial sickness and what are the remedial measures of sickness in industries.

#### **5.18 SELF ASSESSMENT QUESTIONS**

1. What do you mean by SSI? Give its characteristics.
2. What are the steps that must be performed to create a SSI?
3. What do you mean by sickness of business?
4. Describe in detail the various types of incentives and subsidies.
5. What are the Central Government subsidies and incentives?
6. What are the problems of SSIs?
7. What are the remedial measures to detect the fast spreading disease of sickness of industries?
8. What is the importance of SSIs?
9. What is the need for incentives and subsidies for a small scale industrial unit?
10. Small business is regarded as a seedbed for entrepreneurship discuss.