Entrepreneurship

STUDY MATERIAL

Semester – III

BA

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MODULE - I
The Entrepreneurship – A Perspective

- Concepts of Entrepreneurship Development
- Introduction to the concept of Entrepreneur
- Entrepreneur vs. Intrapreneur
- Entrepreneur vs. Entrepreneurship
- Attributes and Characteristics of a successful Entrepreneur
- Role of Entrepreneur in Indian economy and developing economies with reference to Self-Employment Development
- Entrepreneurial Culture.
- Concept of Women Entrepreneurship
- Reasons for few / No Women Entrepreneurs
- Role, Problems and Prospects
- Case studies of Successful women Entrepreneurial Ventures
- Government assistance and schemes to promote women Entrepreneurs

Learning Objectives

On completion of this module you should be able to understand:

- The concept of entrepreneurship and who is an entrepreneur?
- Difference between being an entrepreneur and the concept of entrepreneurship
- Difference between an intrapreneur and an entrepreneur
- What are the characteristic features that make an entrepreneur
- Role of entrepreneurs in the sustenance and development of Indian Economy
- What is an entrepreneurial Culture

Opening Case Study

An eleven year old girl, Kim Merrit thought she could do better after she sampled chocolate at a candy store. She invented her own recipe and started selling candy bars in Maryland, her home town. And gradually the demand for her candy bar increased. She made the design of the wrappers and then started preparing large quantities of candies. Her friends started selling candies in other schools whom she paid commission. Business prospered so much that her weekends and holidays got occupied. After some time the health department suspended her operations till she obtained proper permit from them. Earlier she made candies by hand but later with the increase in demand she bought professional equipment and involved her family and friends in business. Her business was registered as Kim's Khocolates. She had 18,000 orders during her first month. Over the period of time her business grew so much that she thought of a chain of stores all over the country, but that would change the nature of her business and Kim's Khocolates. But the idea was exciting.

- Many people thought that it was her luck that worked but she knew that she worked very hard for her business and it is not luck but her persistence and determination that worked for her. She always took it up as a challenge rather than a block. It was always difficult for her as a young girl to pursue people to buy her candies but she never gave up. She enjoyed her independence but the idea of expansion also invited the botheration of debt which she always avoided. She realized she was standing at a cross road where she had to make a decision whether to go forward for national chain and expansion or remain contended and satisfied with her present position and business.
- Q. What are the entrepreneurial competencies Kim Merrit possesses?

1.1 Introduction

The term entrepreneurship has become very important in the last few years after many studies and surveys have shown that small firms indeed contribute significantly to economic growth of a country. Many people have chosen entrepreneurship as a career because it offers a lot of economic and psychological rewards. Entrepreneurship has brought about a lot of economic development since independence. This module helps you to understand various topics such as the concept of entrepreneurship, entrepreneur and intrapreneur and the role of entrepreneur in economic development.

1.2 Concept of Entrepreneurship Development

The word entrepreneurship is derived from the French word "entreprendre" which means "to begin something" or "to engage in". So, entrepreneurship means to take the initiative, take the risk and begin a new business. It involves innovation and fulfilling the needs of people with a profit motive. The person who undertakes this endeavor is an entrepreneur. He plans and innovates, organizes, arranges the capital and takes the risk of business and investment. He bears the risk of buying the raw materials at certain prices and selling the produce at certain prices which includes the profit.

Entrepreneurship initiates new product development and organizes the various factors of production to make a product marketable. It also introduces technology. It is also defined as the process of bearing the risk of buying at certain prices and selling at uncertain prices. So, the concept of entrepreneurship is action oriented which involves much planning, calculated risk, which starts as a small business and then gradually grows and develops.

Entrepreneurship plays a vital role in the economic development of a country. The various socio, economic and institutional resources are combined for the development of entrepreneurship which ultimately lead to a better quality of life. The standard of living can be improved when there is availability of goods, increased jobs, education and economic well-being etc., which further leads to economic development. This growth and advancement can be facilitated by the business houses when the need for making use of the opportunities arises in them. This need is shown by the business houses, which convert the thinking into action and bring the way for economic development.

Approaches to the Concept of Entrepreneurship

There are three approaches which can be used to explain the concept of entrepreneurship:

(1) Economic Approach: In the economic approach entrepreneurship is taken as a process in which an entrepreneur identifies the potential opportunity in the market and exploits the same. He identifies the consumer demand for a particular product and takes risk in initiating, innovating and producing the goods. He is a person who makes decision of utilizing the resources and starting up a new venture.

(2) Sociological Approach: In sociological approach, entrepreneurs are governed by the needs and desires of the society. They need to assess the demands of the society and then take up the initiative, which in turn leads to social responsibility, and industrial development.

(3) Psychological Approach: In this approach, it is said that it is the high need for accomplishment which drives people in to taking risk and initiation of a business. It is the desire for material success, responsibility and the courage to take on challenge which drives the entrepreneurs.

Therefore entrepreneurship is the outcome of complex economic, social and psychological variables.

Definitions

Various authors have defined the concept in different manner. Entrepreneurship is a qualitative concept and cannot be precise. Following are some of the definitions given by various authors:

(1) According to A.H.Colen Entrepreneurship is "the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production or distribution of economic goods or services"

In this definition entrepreneurship is defined as an activity which is undertaken to earn profit by production of goods and services.

(2) According to Schempeter - "Entrepreneurship is essentially a creative activity. It consists of doing such things as are not generally done in the ordinary course of business. An entrepreneur is one who innovates i.e carries out new combination or enterprise.

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 a new market

(d) The conquest of new source of supplying raw material

(e) A new form of organization".

In the above definition entrepreneurship is defined as a creative activity which involves introduction of new product and undertaking such activities which are not generally performed in the routine business.

(3) According to Peter F. Drucker-"Entrepreneurship is neither a science nor an art. It is a practice. It is a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the end that is by the practice. Entrepreneurship is not just about making money. It is about imagination, flexibility, creativity, willingness to think conceptually, readiness to take risks, ability to mobilize agents of production and the capacity to see change as an opportunity. It is also about marrying passion and process with a good dose of performance."

Peter F. Drucker defined entrepreneurship as a practice and as a base of knowledge which involves creativity, willingness, ability to utilize the factors of production and capacity to see opportunity.

(4) According to H.N.Pathak "Entrepreneurship involves a wide range of areas on which series of decisions are required which can be grouped into three categories : (i) perception of an opportunity, (ii) organizing an industrial unit, and (iii) running the industrial unit as profitable, going and growing concern." In the above definition, entrepreneurship has been grouped into three parts as

seeing an opportunity and organizing and running of industrial unit as a going concern.

To summarize the above definitions we can say that entrepreneurship is a process which is action oriented and which involves visualizing, risk taking, decision making and formulation of a business plan, its implementation and utilization of various resources to the maximum possible extent with a profit motive.

Concept of Entrepreneurship Development

The principal objectives of the Entrepreneurship Development Programme include the search for the latent entrepreneurial ability and its development through promoting small enterprises by training of potential entrepreneurs.

It was in the year 1970 that the first systematic effort to identify and develop new entrepreneurs from non-conventional communities and occupational groups was initiated in the state of Gujarat. It was at the same time that a beginning in training entrepreneurs had been initiated by Small Industries Development Organization (SIDO) had been initiated with unemployed engineers. Since then Entrepreneurship Development Program (EDP) has spread across the country and has become an essential platform for creation of employment and project plans of national and state governments.

Abolishing financial control: the tip of the ice berg

One of the primary aspects that has been suggested to be important in incubating entrepreneurship is removal of financial constraints on competent, aspiring individuals who could not secure loan assistance from commercial banks because of the bank's restrictive terms and their own limited resource. Loans up to 100% of the project cost at attractive terms need to be available without stringent collaterals or securities or third party guarantees. The loans need to be available on the assessment of the capability of the individual rather than the financial background of the individual.

Experience and studies have revealed there is indeed a vast untapped potential amongst traditional non-business communities and castes which get initiated and develop when such financial constraints are removed, particularly in the middle and lower income groups.

Searching far and wide

When searched far and wide, it is often seen that there is even a wider spectrum which may not be responding owing to several other constraints. There may be many more machine operators, turners, fitters, sales men, fresh engineers , rural artisans, sons of rural agriculturists who continue to remain frustrated in their current jobs and who would like to be on their own. Some of these factors include lack of motivation to take risks, some may need information on what is a good business opportunity or how to go about setting up an enterprise, some may know how to produce, repair or service a product but are ignorant of how to produce, repair or service a product. They are also ignorant of how to manage en enterprise or market or sell, some may lack confidence of standing on their own feet due to lack of own or family's business experience, some may be discouraged by formalities and procedures and fear of dealing with government organizations

An entrepreneurship program meets many of the constraints discussed above through a package of training-cum-counseling inputs combining motivation development, project counseling, managerial orientation, information on sources of help and support, making a project plan and over all confidence development through constant counseling and support by a skilled entrepreneur trainer-motivator (ETM).

1.3 Characteristics of Entrepreneurship

Entrepreneurship is a process, the person who follows the process is an entrepreneur and the object is an enterprise. To make it simple entrepreneurship is an act of being an entrepreneur. It involves various actions to be undertaken by an entrepreneur in formulation of an enterprise. Following are the main characteristics of entrepreneurship:

(1) **Innovation:** The process of transforming a creative idea into goods and services for which people pay a price is called innovation. It is an eagerness to do something new. Innovation involves intentional application of information, imagination, and initiative in deriving maximum value from the resources, and includes the process by which new ideas are generated and converted into useful products.

According to Schumpeter, innovation may occur in any of the following ways:

(a) The introduction of a new product which the customer is not familiar yet.

(b) The introduction of a new method of production which is not yet 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 a 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.

Thus an entrepreneur identifies new opportunities, employs advanced technology and produces new and improved products and services to meet the customer requirements.

(2) **Risk Bearing:** A risk is a threat of loss, or other negative occurrence that is caused by external or internal factors. Entrepreneurship involves risk bearing. As a consequence, unforeseen contingencies should be taken into consideration before starting a business. An enterprise might earn profit or incur losses. So an entrepreneur should not be averse to risk, he should be a risk taker. His risk bearing ability will enable him to proceed further and take up the challenge.

(3) **Decision Making:** It is the thought process of making a choice from the available options. All the pros and cons of the available options should be taken in to consideration before making a decision and the end result of the decision should be forecasted before opting for the same. There is uncertainty; this implies assuming the responsibility of loss that may occur due to the factors which are out of control.

(4) **Building Economic Organization:** It involves allocation of scarce resources. 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 function as well. According to him, an entrepreneur is one who combines the land, the labour of another and capital of yet another, and thus produces the product. By selling this product in the market, he pays interest on capital, rent on land, wages to labourers and what remains is his profit. He further clearly distinguishes between the role of a capitalist as a financier and the entrepreneur as an organizer.

(5) **High Achievement:** It is the need for accomplishment which drives a person to undertake risk. And different people are inspired by different things. David McClelland identified two characteristics of entrepreneurship, namely (a) doing things in a new and better way and (b)decision making under uncertainty. He stressed on the need for achievement as the most important factor. He also stressed that entrepreneurs are highly motivated by challenging and competitive work situations.

Importance of Entrepreneurship

1. It helps in growth and development of the economy.
2. It helps in balanced regional development
3. It results in proper utilization of economic resources.
4. It creates employment opportunities.
5. It helps in meeting the changing requirement of the markets.
6. It also helps in distribution of products to large-scale business houses, thus, support large business.

1.4 Introduction to the Concept of Entrepreneur

When we go to a shop or stores there are a large variety of products available. All these products are an end result of creative thinking done by someone. To convert these ideas into tangible product a manufacturing unit , place of business and capital are needed. In fact all the four factors of production i.e land, labour, capital and organization are required. One who organizes these factors and transforms the thinking process into action is called an entrepreneur.

An entrepreneur is a person in whose mind the idea of initiating a venture takes place. He is courageous to take risk and grab the opportunity available in the market which was not identified earlier. He has a strong need for accomplishment. He introduces new products and services in the market and improves the existing products or services available with the help of new and advanced technology.

Entrepreneur is a person who takes risk to start the business integrates and manages various factors of production. He is the person who recognizes the opportunity, creates an idea and then transforms it into action and reaps the rewards of those efforts.

Definitions

1. **According to J.A. Schumpeter:** "An entrepreneur as an innovator who carries out new combinations to initiate the process of economic development through introduction of new products, new markets, conquests of new source of raw materials and establishment of a new organisation of industry". He said "The carrying out of a new combination we call enterprise, the individuals whose function is to carry them out we call entrepreneurs". He has put emphasis of profit, which is the product of innovation and the prime mover of economic development. According to him "the process of development is a deliberate and continuous phenomenon, which is actively promoted by the escort services of a change agent who provides economic leadership. This change agent is what is called entrepreneurs".
2. **According to McClelland :** "An entrepreneur is someone who exercises some control over the means of production and produces more than what he can consume in order to sell (or exchange) it for individual (or household) income".
3. **Peter F. Drucker defines :** "An entrepreneur is one who always

searches for change, responds to it explains 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".

4. **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".

5. **International Labour Organization (ILO) defines:** "Entrepreneurs as those people who have the ability to see or evaluate opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success."

Thus entrepreneur is a person who is an independent thinker, one who takes risk of initiating a business and organizes the factors of production with a motive to earn profit and accomplish his goals.

1.5 Entrepreneur Vs Intrapreneur

Intrapreneur

An inside entrepreneur, or an entrepreneur within an established firm, who uses his creative thinking without exposing oneself to the risks associated with those activities is an intrapreneur. They are basically employees within a company. They can use the resources of the firm that they are employed. Their main objective is to turn their creative idea into a profitable deed.

In the mid-80s, Gifford Pinchot introduced the term "intrapreneur" to describe employees of established firms who have a creative mind and who act as an entrepreneur within the organization. Pinchot defines intrapreneurship as "behaving like an entrepreneur when you're employed at a large corporation for the benefit of the corporation as a whole". He further explains the term as "those who take hands on responsibility for creating innovation of any kind within an organization. The intrapreneur may be the creator or the inventor but is always the dreamer who figures out how to turn out an idea into a profitable deed"

Big business houses are always in a need and search of employees who have creative mind and use their ideas to earn profits. They basically allow their employees to use their resources for transforming the idea into action and they bear the risk associated with the project. These organisations take advantage their potential and meet the demands of the market. Thus both entrepreneur and intrapreneur have creative thinking and are innovators and seek development and change which further leads to material growth in the economy.

Difference between Entrepreneur and Intrapreneur

Entrepreneur	Intrepreneur
1. Entrepreneurs are liberated and self-contained.	1. They are not independent.
2. They raise the capital on their own. They may face difficulty in arranging the funds.	2. They utilize the funds of the organization they work with. The resources are readily available for them.
3. They are their own bosses and the owners of the business.	3. They are the employees of the organization.
4. They bear the full contingency of loss in business.	4. They don't have to bear the contingency of loss.
5. They reap the fruits in the form of profit, if the venture is successful. They take the full profit of the business.	5. They may not share the profit but may be given some compensation for their innovation.
6. They may manage the business from outside the organization.	6. They manage and operate within the organization.

1.6 Entrepreneur Vs Entrepreneurship

Entrepreneur	Intrepreneur
1. Entrepreneur is a person who has the capacity to take conception, organization and management of a venture.	1. Entrepreneurship is a venture. It is a process.
2. He organizes the resources.	2. It is an organized form of resources.
3. He takes the risk.	3. It is an activity of taking the risk.
4. He is an innovator of new product or process or services.	4. It is the process of innovation of new product or process or service.

5. He is a creative thinker. He generates an idea.	5. Entrepreneurship is putting that idea into action.
6. He is the person who perceives and envisions.	6. It is the perception and vision.
7. He is the manager and the director for the business.	7. It is the management and the direction to achieve the goals.

1.7 Attributes and Characteristics of a successful Entrepreneur

1. **Achievement Motivation:** The entrepreneur has a high need for accomplishing his goals. He has a self-motivated attitude. To them attaining their goal is of utmost importance. He is driven by a need to achieve certain target.
2. **Vision and Clear Objective:** He has a clear vision in his mind where he wants to go and what to achieve. In other words his objectives are clear to him as to what type of product to produce, what changes are needed and how to go with the changing demand of the consumers and what are their requirements. Based on that he sets his objectives and works to achieve them and aim at earning profit.
3. **Creativity:** An entrepreneur is a creative thinker. He creates an idea in his mind and then transforms it into action. It is something which is characterized by originality. It is an ability to produce something new out of imagination.
4. **Independence:** Entrepreneurs are the persons who like to be their own boss. They can't work under others direction. Hence they are independent to work on their own. They like to make decisions and don't like to work on the guidance provided by others.
5. **Risk Bearing:** They are the people who undertake calculated risk and take care of the unforeseen contingencies which might arise out of various vulnerabilities.
6. **Dynamism:** The business environment keeps on changing so the entrepreneur keeps on taking the changing circumstance into

account and keeps on improving the things for the better. He is the person who is pragmatic in approach and moves forward by taking into account the changes which keep on coming over a period of time.

7. **Commitment, Determination and Perseverance:** Entrepreneurs are the people who are determined to achieve their targets and committed towards their goals and continue to exert their efforts until they succeed in their work. So this never dying attitude works wonders for an entrepreneur and endlessly motivates him to work.
8. **Ability to Find and Explore Opportunity:** They are the people who find the opportunity and explore it and start with a creative mind and visualize. Then they further look for resources and turn their idea into action.
9. **Initiative:** They are the people who take a start and begin a new thing or produce a product and service. They are the problem solvers and possess the inclination and courage to take up the challenge and then proceed with it taking into consideration all the pros and cons of the situation.
10. **Tolerance of Ambiguity and Failure:** Entrepreneurs face ambiguity in every phase of business. There is uncertainty in every step they proceed because they are initiating a new venture. But there is always a hope of success and if there is any failure they learn from it and then move forward.
11. **Integrity and Reliability:** These two attributes help in building and maintaining trust and confidence. These are the features which help in building personal and business relationships and the goodwill of the business and the entrepreneur.
12. **Problem Solver:** An entrepreneur is a problem solver. He identifies a problem and gathers information on the problem to be solved, identifies various alternatives available, approaches the problem and takes action to solve the problem. Once the problem is solved, he analyzes the results as well, which involves brain-storming during which a host of new ideas are generated.

13. **Team Building:** A team is a group of individuals sharing a common goal. The purpose of team building is to assist the team members in becoming cohesive units of individuals that can effectively work together to achieve a goal. It helps in making the workplace more enjoyable, improving communication and productivity. So an entrepreneur should have the ability to build a team as he will be heading the business towards a common goal.
14. **Business Planning and Ability to Mobilize Resources:** When an entrepreneur visualizes something he further makes a plan to achieve it. He frames the process of achieving the target, lays down the budget, makes strategies to see if there is any competition, and then takes the requisite action. He always follows the principles of management while preparing a plan for future. He mobilizes all the resources i.e. men, material, money, machinery, market and method effectively and efficiently to make a final product or service.
15. **Learning from Experience and Open to Feedback:** A successful entrepreneur is a person who learns from his experiences and then moves forward. He is open to receive any feedback positive or negative and then makes the changes and the improvement required.
16. **Leadership:** Leadership is one of the core competencies of an entrepreneur. They need to provide the necessary motivation and inspiration to the team they are heading in order to achieve the goals. They must have the capability to drive the team towards the goal. They need to ensure that the team is functionally strong in certain values like inner morale, discipline and active participation of the members of the team.

1.8 Competencies of an Entrepreneur

An entrepreneur needs to possess certain skills in order to be a top performer. A competence is an underlying quality of persons, which results in efficient performance. An entrepreneur needs to possess certain functional as well as personality traits in order to accomplish the goals and objectives of the business.

Following are the competencies of an entrepreneur.

1. **Initiative:** It is the quality of the person in which he initiates work before it is demanded of him or forced by the event. He takes actions that well go beyond the job requirements or demands of the situation. These may be the actions to initiate a new venture or those required to expand the business to new areas and products and services.
2. **Sees and Acts on Opportunities:** This competency makes an entrepreneur groom seek new opportunities and build on them. He is shrewd enough to identify opportunities and obtain various resources such as finance, equipment, land, work space or assistance.
3. **Persistence:** This competency prompts a person to make repeated efforts to overcome the obstacles and blocks that come in the way of reaching goals. He may opt for repeated or different actions to clear the road towards the goal.
4. **Information Seeking:** He resorts to multifarious ways to seek information and clarify the problem. He may do personal research, analysis or investigation, consult experts for advice whether technical or business or use his contacts or network to obtain the required information.
5. **Concern for High Quality of Work:** This personal attribute kindles a desire to perform work of high quality. These are the acts performed to beat the existing standards of business where own work is compared favorably to that of others.
6. **Commitment to Work:** His first priority is to complete the work. Irrespective of the challenges and hurdles that come his way and the sacrifices that he may need to make, he ensures that he takes on the full responsibility and does everything possible within his ability to ensure that the customers are satisfied. In this role, the entrepreneur pitches in with workers to get the job done and expresses a concern for satisfying the customer.
7. **Efficiency Orientation:** It is a skill to find ways to do things faster, with fewer resources and at lower cost. The entrepreneur

uses information to improve efficiency and express concern about cost.

8. **Systematic Planning:** Make step- by-step plan to reach goals by breaking a large task down into sub task, develop plans that anticipate obstacles and evaluate alternatives.
9. **Problem Solving:** It is identification of new ideas to reach goals, gathering all the information, knowledge seeking as well as keeping in mind the alternative strategies available in order to solve problems in the work place. It involves generation of new ideas or innovative solutions. The entrepreneur is a born problem solver and always seeks solutions and learns from them.
10. **Self Confidence:** It is a quality of having strong belief in self and own abilities. It is sticking with own judgment in the face of opposition.
11. **Assertiveness:** It involves confrontation of problems and issues with other directly. It also is reprimanding those who fail to perform as expected.
12. **Persuasion:** It is convincing people in favor whether it is a customer or a financer providing finance or convincing someone to do any work. It asserts own competence, reliability, or other personal or company qualities.
13. **Use of Influence Strategies:** It is using variety of strategies to affect others. It involves acts to develop business contacts, using influential people as agents to accomplish own objectives, selectively limiting information given to others and using strategy to influence or persuade others.
14. **Monitoring:** It involves developing or using procedures to ensure that work is completed and has met the standards of quality, personally supervising all aspects of a project.
15. **Concern for Employee Welfare:** It involves taking action to improve the welfare of employees, taking positive action in response to employees, personal concerns and express concerns.

Functions of an Entrepreneur:

The following are the functions of an entrepreneur:

The above mentioned entrepreneurial functions in the diagram can be summed up in three core functions, which are as follows:

1. **Innovation:** He is the person who creates new product and services. He is the person who introduces new combination of products and services in the market.
2. **Risk Bearing:** He bears risk of unforeseen pitfalls and initiates the new business. An entrepreneur is a person who looks for the opportunity and then takes risk and moves forward. Business is a game in which both risks and rewards are huge.
3. **Organization and Management:** The entrepreneur organizes the various factors of production in an efficient and effective manner and then manages the business and takes decisions by keeping all the alternatives in mind to achieve the goals. Managing finance, production, work force and market is a responsibility of an entrepreneur.

Importance of an Entrepreneur

1. **Economic Growth:** He contributes to the economic growth by generating employment opportunities, capital formation, improve in the standard of living of people by producing new and better product and services. They play a vital role in infrastructural development by establishing their business etc.
2. **Generation of Employment:** They generate employment opportunities as they employ people to work for them.
3. **Bringing Social Stability:** They bring social stability by absorption of work force, creating social infrastructure like schools and colleges and hospitals and supply of qualitative goods and services.
4. **Balanced Regional Development:** They bring regional development by setting up industries in backward areas, developing handicrafts and cottage industries etc.
5. **Export Promotion and Import Substitution:** They manufacture consumer and capital goods in order to minimize dependence on foreign industries .Entrepreneurs play a vital role in export of handicraft items and carpets and stone carvings etc.

Role of Entrepreneurs in Indian Economy and Developing Economies with reference to Self-Employment Development.

(1) **Employment generation:** Entrepreneurs provide employment opportunities on a large scale. They provide more employment opportunities as compared to large-scale industries as they also provide employment to artisans, technically qualified persons and professionals.Educated unemployment is the problem of the nation. They generate employment opportunities by starting many industrial units and offering jobs to millions. Thus entrepreneurship is the best way to erase unemployment.

(2) **Optimization of capital:** Small scale industries raise less capital as compared to large business houses and provide quick returns on investment due to shorter gestation period. They also raise capital by mobilizing small savings of people and putting them

into productive use by investing the money in the business.

(3) **Balanced regional development:** Entrepreneurs set up industries in rural and backward areas. They help reduce overcrowding in cities by providing employment in rural areas which in turn lead to better standard of living of people in rural areas. The development and establishment of industries in these areas leads to better transport facilities, health facilities, education and entertainment facilities etc .This helps in development of backward regions.

(Please find from udyogmitra the latest statement for all the above data)

(4) **Utilization of local resources:** When entrepreneurs set up industries in small and backward areas, they use the savings, artistry and ability, capability and raw materials etc. Thus they make the effective and efficient utilization of local resources and provide employment to the people and also promote the traditional skills. In the nonappearance of industries in these areas, these resources would not be utilized.

(5) **Export promotion:** Entrepreneurs help in export promotion of handicraft items, and sometimes market within the country is not sufficient to absorb the production and therefore new markets are explored, besides development of small scale industries also help in development of the economy and rise in production of goods and services. The pressure on country's Balance of Payment is also reduced with the help of small scale industries. They contribute a significant percentage in India's total exports.

(6) **Consumer Satisfaction:** Entrepreneurs identify the needs of the consumers and then produce goods. They produce a large amount of consumer durables and offer vast choices to the consumers. They also provide goods and services which are necessities on a large scale. All this leads to consumer satisfaction.

(7) **Better Standards of Living:** They help in attaining economic development. They provide goods and services to the customers at less cost and of good quality as per their needs. If the goods are available at lower cost than more and more needs can be met, the purchasing power of consumer increases. This helps in raising

the standard of living.

(8) **Ancillaries to Large Business Houses:** Entrepreneurs may sometime play as feeder to large business houses by manufacturing components and accessories which are raw material for large scale units. So they play a complementary role for big business houses.

(9) **Distribution or Spreading of Economic Power:** Entrepreneurs help in equitable distribution of income among people by providing self- employment and use of local and limited resources. They also help in development of backward areas. While big business houses may enjoy monopoly which further leads to concentration of economic power in few hands. Promotion and advancement of entrepreneurship helps in distribution of economic power which in turn debilitate the negative effects of monopoly.

(10) **Creating innovation:** An entrepreneur is a change agent. He introduces new blend of factors of production. He introduces new mixture of products in the market. He brings development in the economy and explores new opportunities available in the market. An entrepreneur helps in competing the international market and keep on introducing the new technology and products .So, an entrepreneurs role as an innovator is of great significance.

In a nutshell we can say that entrepreneurship is the cause of economic development

1.10 Entrepreneurial Culture

Entrepreneurial culture means an environment that is favorable for the growth of entrepreneurship. Entrepreneurship is a combination of social and economic behavior. An entrepreneur is also socially responsible to the whole environment. The culture, government regulations, political environment, economic environment and social environment all have an impact on the growth of entrepreneurship. An entrepreneur need to adopt dynamism.

The economic development and entrepreneurship is intensely affected by cultural values.

The social values and culture of a country cannot be ignored by an entrepreneur. If he wants to survive and proceed. An entrepreneur can balance and skillfully manage his business if he has better understanding of the business environment.

The culture around an entrepreneur gives him the ability to struggle, turn failures into success and proceed with enthusiasm and to survive in the world of business. All this comes from experience gathered in a cultural environment.

Sociologists like Max Weber say that entrepreneurship comes out under a specific social culture. According to them, social and cultural values and expectations are responsible for the cropping up of entrepreneurship.

Family plays an important role in building entrepreneurial traits. If it is a business family then it is an added advantage. Born and brought up in a business family is enough base for a person to create a viable business. Family background and familiarity with business environment increases the chances for an offspring to become an entrepreneur.

Besides Government rules and regulations, how liberal they are and how much they support the entrepreneur for conducting the business also influence the environment.

To sum up we can say that family values and culture, the socio-cultural environment and economic and political framework play a major role in framing the entrepreneurial culture.

Concept of Women Entrepreneurship

6.1 Introduction

Jawahar Lal Nehru remarked “when a woman moves forward, the family moves, the village moves and the nation moves.”

Modern times have witnessed an array of changes in societal activities. Among them the most significant and pertinent is woman liberation and empowerment.

Women entrepreneurs have always been contributing to the society in their own ways. However, there is a growing awareness among women that they can start a new enterprise which helps them to attain financial independency, self-sustenance, social status and professional achievement. Women entrepreneurs have come out of the niche market they had created and they have entered in all industrial sectors. This has created a sizable employment and also has set a trend for other women to become entrepreneurs.

The number of women entrepreneurs has been rising steadily. In 1981 only 5.2% of entrepreneurial forces were women. In 2001 it increased to 11.2% and currently it is around 20%. Women have now started setting up their own enterprises and they are running them very successfully.

6.2 Definition of Women entrepreneurs

Government of India has defined women entrepreneurs as an enterprise owned and controlled by women having a minimum financial interest of 51% of the capital and giving atleast 51% of employment generated in the enterprise to women.

According to J. Schumpeter an economist and a political scientist:

“Woman who innovates, imitates or adopts a business activity is called woman entrepreneur”.

According to Frederick Harrison:

"Any woman or group of women which innovates, imitates or adapts an economic activity may be called woman entrepreneurship".

According to Kamal Singh

A women entrepreneur can be defined as "a confident, innovative and creative women capable of achieving self economic independence individually or in collaboration, generates employment opportunities for others through initiating, establishing and running the enterprise by keeping pace with her personal, family and social life".

Thus women Entrepreneurs are women or group of women who initiate, organise and run a business enterprise. A women entrepreneur has to perform all the activities involved in establishing an enterprise. These include idea generation and screening, determination of objectives, project preparation, product analysis etc.

6.3 Functions of women entrepreneurs

Women entrepreneurs have to perform all those functions that any entrepreneur would do to start and run the enterprise. They also have to generate, screen ideas, conduct market analysis, feasibility analysis (technical, financial, marketing and commercial viability) and project preparation, raise capital, procure material and men for production and for day-to- day operations.

The sets of functions performed by an entrepreneur as mentioned in the first module remains the same for even women entrepreneurs.

a. Innovation
b. Risk- Bearing
c. Organization and management

Further Mr. Frederick Harbison, author of Education, Manpower and Economic Growth has quoted the following as the functions of women entrepreneurs

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

6.4 Reasons for no/few women entrepreneurs

There are many challenges which are being faced by women entrepreneurs' right from the start-up of the enterprise to its day-to-day functioning. One of the major problems faced by women entrepreneurs is that they are women. The problems are due to a woman's duties and responsibilities towards family and work. These responsibilities are highly demanding and time consuming leaving little time and energy for entrepreneurial activities.

Literacy, better socio- psychological and educational environment in the family, occupational structure, financial conditions of the family, status of women etc. also affects the women entrepreneurs.

Some of the reasons for there being few women entrepreneurs are as follows:-

I. Work/ Home role conflict: - In India, women plays a significant role in looking after the family. As women give importance to family and relationship, they will have to devote more time and energy towards the domestic needs. In such situation, tension exists in the form of dual role conflict; where the women entrepreneur has pressures from the entrepreneurial role and homemaker role.

   There are a number of variables which enhance the dual role conflict such as the family size, demands of younger children, support from the family etc. The success of women entrepreneurs also depends on the support extended by her family members in her business.

   Owing to these reasons, women cannot devote all their time and energy towards their business, so women entrepreneurs must be prepared to cope with work/home role conflicts in the initial years of the business.

II. Closing the funding Gap:- The major problem faced by many women entrepreneurs across the globe is funding, it can be initial funding or for expansion. Women entrepreneurs suffer from lack of funds. Most of women entrepreneurs are not able to provide collateral security for the loans.

Women's credit worthiness are considered to be lesser than that of men, one of the reasons is that they are unable to provide tangible security. The financial institutions cannot fund without collateral security. Only a few can provide them. Thus the access to external funds is limited. To start and run the enterprise women depend mostly on their personal funds, personal savings and personal loans. This gap of funds i.e. the difference between the desired level of funds and the actual funds available acts as a barrier for women to start their own enterprise.

However this phenomenon is beginning to change and the financial institutions along with support of Government are funding women entrepreneurs; They are also helping and providing assistance to women entrepreneurs to start their business.

III. Changing preparation : - Traditionally, few women entrepreneurs had formal education and training of running an enterprise. Most of the women entrepreneurs had started their business accidentally. They might have worked in some organisation and due to some problem broke away and started their own enterprise. For many women entrepreneurs business planning, organizing, staffing, directing and controlling functions of management were learnt through first–hand experience. The new enterprise they started was a learning experience.

IV. Raw materials, Labour issues :- Approximately 60% of all women entrepreneurs are in the service sector (examples; restaurants, boutiques, hotels, cultural, educational institutes, retail trade etc.) . They have low barrier to enter and exit. This service sector continues to offer important opportunities to the women entrepreneurs. Many of these are labour intensive, and highly competitive in nature which poses problems for the women entrepreneurs to start and run the business.

V. Psycho–Socio factors:- This also acts as a major reason for few women entrepreneurs. Some of the Psycho – Socio factors are

   i. Poor self image
   ii. Inadequate motivation
   iii. Discriminating treatment in society
   iv. Cultural values
   v. Lack of courage and self confidence
   vi. Inadequate encouragement
   vii. Lack of social acceptance
   viii. Unjust social-economic and cultural system
   ix. Lack of freedom of expression
   x. Afraid of failures and criticism
   xi. Susceptible to negative attitudes
   xii. Non- persistent attitude
   xiii. Low dignity of labour

6.5 Role of women entrepreneurs

It is a fact that women entrepreneurs are increasing steadily in the business world and so is their contribution to the economic growth of the country.

In the process of starting and running the enterprise women entrepreneurs are leaders, innovators, job creators, and promoters of economic transition. These factors have contributed to economic empowerment which in turn has led to social empowerment of women. Being Micro entrepreneurs at the grass root level of society they have been a great boon by aiding in the welfare and development of people in the lower strata of the society. Women entrepreneurs at the micro level with the help of self-help groups and government organisations have helped to increase the standard of living of the poorer sections of society.

In advanced countries women entrepreneurs own more than 1/3rd of small businesses and in Africa, Asia, Eastern Europe, and Latin America their numbers are growing rapidly.

Any country for its development, needs to utilize its resources to the maximum possible extent including its human resource component. Women constitute around 45% of the total population, so their participation in the economic activity is very necessary not only from the human resource point of view but also for empowering and upgrading the socio-economic status of women. Women entrepreneurs are not only contributing towards the economy of the country but are also working at raising the socio-economic status of women.

6.6 Problems of women entrepreneurs

1. **Problems to access finance:** Women entrepreneurs face difficulty in organizing funds for their start up enterprises. Even the financial institutions are skeptical about funding ventures started by women. Added to it some of the reasons for problems to access to finance are :-
   a. Women generally donot have any property in their name, which can be used as collateral security to borrow from the financial institutions and banks. They usually start from their personal funds and personal borrowings.
   b. The financial institutes do rate women's' credit worthiness lesser than men on the reason that women entrepreneur may discontinue the enterprise at any point of time and it is also easy for them to exit out of the business.
   c. Family members of women entrepreneurs have little confidence in the capabilities and they do not finance the women entrepreneurs.
2. **Limited Mobility:** Men entrepreneurs enjoy the liberty of being mobile that is they can travel from place to place. Mobility of women entrepreneurs in India is limited, it can be due to family commitments or for safety reasons. The level of confidence to travel across different regions and states during are less in women compared to male entrepreneurs. This shows the low level

freedom of expression and freedom of mobility of the women entrepreneurs.

Women entrepreneurs, by and large face the problem of marketing their products and services due to limited mobility, therefore women entrepreneurs have to depend on the middlemen for marketing of their products, who charge higher amounts and exploit women entrepreneurs.

3. **Family ties:** Women give importance to their family both in developed and developing countries. Women's family obligations also pose problems for them to run the enterprise efficiently as their primary responsibility will be towards their home, children and other dependents.

   Married women entrepreneurs have to do a tight rope walk as they have to strike a balance between their business and their family life. Their success also depends on the support by her family members.

4. **Male dominated society:** The socio-cultural attitudes and views prevailing in the society is not conducive for women entrepreneurs. Traditionally entrepreneurship was considered to be forte of men, any deviation to this by women will be discouraged, and their dream of starting enterprise will be curbed. These attitudes and beliefs act as block for the women entrepreneurs to start their enterprise and run it successfully.

5. **Family conflicts:**As discussed earlier women perceive that their primary responsibility is towards the family, they face a conflict of performing the duties towards the family as they find it difficult to devote much time with their family.

   Women entrepreneurs need to spend much of the time towards business; hence they find it extremely difficult to meet the demands of their family members and society, all these add to their conflicts with the family.

6. **Role Conflicts:** A higher level of commitment, dedication is required for running an enterprise successfully. As discussed earlier women have to look after the family, they are overloaded with the role of entrepreneurs added to this the role of taking care

of family aggravates their strain and stress. They will have to cope up with the different roles they play.

7. **Lack of education:** Census in India proves that fact that literacy level of women is much lesser than that of men. Currently the literacy rate of women is around 65.46%. This is one of the major problems that women entrepreneurs face.

   Due to lack of formal education, they are ignorant about opportunities, new technologies, support given by several institutes, market etc. These create problems even for the smooth running of the enterprise.

8. **Discrimination in their upbringing:** We still witness cases on female foeticide. They are discouraged to start a venture on their own kith and kin, and they are expected to be passive and to take care of the family.

   Even major decisions are taken by others in the family on behalf of women, which acts as a barrier to their entrepreneurial profession.

9. **Low need for achievement:** The major attribute for the success of entrepreneurship is the need for achievement, self sustenance, independency. But women do lack in the urge for these attributes, as a reason only few women do venture out and become successful women entrepreneurs.

   Achievement motivation of women is less when compared to men. Lack of education and low self-confidence leads to low level achievement.

10. Low risk bearing capacity: -Women in India are not financially independent; they depend on the family for the financial decisions. Thus the risk bearing capacity of women entrepreneurs is low and it hampers the entrepreneurial career.

    Investing funds, running the enterprise and decisions regarding money requires high risk bearing capacity, courage and confidence. But women have high risk taking capability in day-to-day life, on the contrary their risk bearing capability is low.

11. **Lack of self confidence:** Women lack in self-confidence and even

hesitate to take decisions on their own. This may be partly because of the socio–cultural norms prevailing. They have accepted a subordinate status for a long time.

Women are conservative in their approach towards business.

12. **Lack of access to technology and lack of training:** Knowledge of new technological changes, know-how and educational level of the person running the enterprises has a significant effect on the business.

    Lower level of literacy, discrimination, lack of access to training prevents women to acquire the benefits of technology and they are unskilled to use the technology and have to depend on others to use the technology for their benefit.

    According to 'The Economist', "this lack of knowledge and the continuing treatment of women as second-class citizens keeps them in a pervasive cycle of poverty" ("The Female Poverty Trap," 2001). The study indicates that uneducated women do not have the knowledge of measurement and basic accounting.

6.7 Case studies of successful women entrepreneurs

Shri Mahila Griha Udyog Lijjat Papad (SMGULP)

The entrepreneurial success of SMGULP is noteworthy. SMGULP was a cooperative system in which women over the age of 18 could become members. Starting humbly, with an initial capital of Rs 80, borrowed from a local money lender and social worker, SMGULP grew phenomenally. In 2002, it had a turnover of Rs 3 billion and exports worth Rs.100 million. It employed 42,000 people in 62 divisions all over the country.

SMGULP was the brain child of seven semi-literate Gujarati housewives, who started a venture to create a sustainable livelihood using the only skill they had– cooking. The seven women were Jaswantiben Jamnadas Popat, Parvatiben Ramdas Thodani, Ujamben Narandas Kundalia, Banuben. N. Tanna, Laguben Amritlar Gokani, Jayaben V. Vithalani, and one more lady whose name is not known. These women did not know what entrepreneurship was; neither did they envisage the proportions their small business venture would grow to. All they wanted was to do something worthwhile with their time and help supplement their family income.

In March 1959, this group of women borrowed Rs 80 from Chaganlal Karamsi Parekh, a member of the Servants of India Society and a social worker. With this capital, they started making papads and selling them to a merchant known to them. Gradually the business grew and its membership increased. Within three months there were about 25 women making papads. Soon the women bought some equipment for the business, like utensils, cupboards, stoves, etc. During the first year, the women had to stop production during the rainy season as the rains would prevent the drying of the papads. The next year, they solved the problem by buying a cot and a stove. The papads were kept on the cot and the stove below the cot so that the process of drying could take place in spite of the rains. By the end of the first six months, they were able to reward themselves with half a gram of gold each from the profit they had made.

The group got considerable publicity through word-of-mouth and articles in vernacular newspapers. This publicity helped it increase its membership. By the second year of its formation, 100 to 150 women had joined the group, and by the end of the third year more than 300 women were rolling papads. In 1962, the name Lijjat was chosen by the group for its products. The organization was named Shri Mahila Griha Udyog Lijjat Papad. By 1962-63, its annual sales of papads touched Rs.0.18 million. In July 1966, SMGULP was registered as a society under the Societies Registration Act 1860.

In September 1966, it was formally recognized as a unit belonging to the 'processing of cereals and pulses industry group' under the Khadi and Village Industries Act. It was also recognized as a "village industry" by the Khadi and Village Industries Commission (KVIC). In 1966, SMGULP was granted a working capital of Rs. 0.8 million by KVIC and was allowed certain tax exemptions. It was also registered under the Bombay Public Trusts Act, 1950, as a Public Trust. In 1966, SMGULP evolved into a formal organization and the member sisters adopted the first written constitution. The logo chosen read, "Symbol of Women's Strength". Only women could become members;

men could not become members of the organization and did not have any ownership rights. Men working in SMGULP provided only functional support.

2. Successful Women entrepreneurs

"Entrepreneurship actually implies an independence of spirit. It is this independence that women in India have begun to express over the last two or three decades. That is why the percentage of women among the total number of entrepreneurs in India has been steadily"

Shahnaz Husain

Shahnaz Husain (Shahnaz) was another successful woman entrepreneur of India. She popularized herbal treatments for beauty and health problems. Her company, Shahnaz Husain Herbals, was the largest of its kind in the world and had a strong presence in over 100 countries, from the US to Asia. By 2002, the Shahnaz Husain Group had over 650 salons around the world, employing about 4200 people. The net worth of the Group was $100 million.

Shahnaz Husain was born into a royal Muslim family which originally came from Samarkand (in Pakistan) and later held important posts in the princely kingdoms of Bhopal and Hyderabad before India's independence. Shahnaz's father, Justice N.U Beg, was a progressive man who instilled in her a love for poetry and English literature. Shahnaz Husain received her schooling in an Irish convent. A western education coupled with a traditional family background gave Shahnaz Husain wide exposure and developed her into a well-rounded personality. She was married at the age of 15 and had a child by the next year.

When her husband was working in Iran, Shahnaz Husain became interested in cosmetology. After she began her training, she realized that chemical cosmetics had a harmful effect on the human body. As a result, she turned her attention towards ayurveda, the ancient Indian system of medicine, which used natural substances and extracts to heal and improve the body. Subsequently, she trained extensively in cosmetic therapy for 10 years in some of the leading institutes of London, Paris, New York and Copenhagen. On her return to India in 1977 she set up her own salon at her house in Delhi with an initial investment of Rs 35000. Instead of offering chemical treatments like other salons, Shahnaz Husain's salon offered Ayurvedic treatments. Shahnaz's custom made natural products for skin and hair problems quickly became successful.

Shahnaz Husain pioneered the commercialization of ayurvedic cosmetics. Until she started her business, ayurveda was practiced in peoples' homes or by local ayurvedic doctors. The commercialization of ayurveda was relatively unknown in the 1970s when Shahnaz Husain entered the business. Shahnaz Husain capitalized on this deficiency. She identified ayurveda as a niche market and catered to it. Her products gained popularity in India, and her treatments were booked months in advance. Encouraged by her success in India, Shahnaz Husain started exploring avenues abroad. She was disturbed by the fact that India was not represented in any of the international beauty forums. Determined to change the situation, she represented India for the first time in the CIDESCO beauty congress,where she was appointed President for the day's proceedings. She used this opportunity to focus the world's attention on India and ayurveda.

The turning point in her business came when she represented India at the Festival of India in 1980. Her team was given a counter in the perfumery section of Selfridges in London. She managed to sell her entire consignment in three days and also broke the store's record for cosmetics sales for the year. As a result, she was offered a permanent counter in Selfridges. Shahnaz Husain was also the first Asian whose products were retailed in the Galeries Lafayette in Paris and to be featured in the 18-foot shop window of the store. Although it was not easy to enter the highly competitive western markets and especially difficult to attract attention to the Indian system of ayurveda, she was able to gain a firm foothold in the markets.

Shahnaz Husain products were carried by many prestigious stores across the world, such as Harrods and Selfridges in London, the Galeries Lafayette in Paris, Bloomingdales in New York, the Seiyu chain in Japan, Sultan Stores in the Middle East and other exclusive outlets in the Middle East, Asia and Africa

Source :- www.icmrindia.org

Profiles: Women Entrepreneurs in Karnataka

1. KIRAN MUZUMDAR SHAW

Kiran muzumdar Shaw is a leading entrepreneur in Biotech business. Padmashri Kiran Muzumdar Shaw, after graduation in malting and brewing in Australia, established her dream unit-BIOCON in 1978. With Irish Collaboration Biocon, which manufactures enzymes, has produced over 70 enzymes, all going for commercial production. The strategic initiatives of Ms. Shaw made her enterprise as a leading bio-pharmaceutical Company. Today Biocon is a leading industry in bio-technology and is having presence in advanced countries of the world through its export of microbial enzymes. Being the first ISO 9001 company in bio-technology, it has many firsts to its credit. It is nowonder that it is the first Indian Company to produce human insulin having Pichia pastoris – an yeast organism as raw material.

Growth Path

Ms. Shaw being a visionary had an opportunity to meet the founder of Biocon International. This meeting made her to start Biocon India. The beginning was very tough. The concept of biotechnology was very new then; moreover, even securing human resources for her unit was difficult in the initial stages. Ms. Shaw being a courageous woman could overcome all these initial hurdles.

She launched her unit in 1978 collaborating with an Irish firm.

I. Biochemizyme

II. Biocon quest India Ltd. These two firms are the two joint ventures which are bringing out innovative products and laurels to her. Having leadership quality, she could assume positions in industry and business offices including the Vice-president of AWAKE.

Considering her capability in providing direction to bio-tech industry, Government of Karnataka made her the Chairperson of the Vision Group on Biotechnology which was assigned the task of framing Biotech Policy for the State. The policy is announced (2005) and is first of its kind in the country and incorporates many farsighted ideas to develop Biotech activity in the country.

Her Vision –"my vision is to grow into a global bio-therapeutics company with every innovative and proprietary product and technologies".

She is a creator and innovator in her field and she says that she is supremely happy with her achievements, particularly the co-invention of plafractor a bio-reactor which combines fermentation and extraction. She is also thrilled by her success in stations at global level in the first entry itself.

She is also very happy with her "successful plant scale up of recombinant human insulin on the very first batch."Besides her main ventures, Ms. Kiran muzumdar has other following credits.

1. Establishment of premiere Biotech school called institute of Bio-informatics and applied biotechnology in Bangalore. It is popularly called as IBAB.
2. Conceiving and commissioning the concept of "Bangalore Bio" for visions group of Karnataka Government. Bangalore Bio is an Annual Fare of Government of Karnataka to provide information on new developments in bio-technology to the interested countrymen vis-à-vis foreigners. This takes place every year on the 15thof April.
3. Many leading foreign news papers have showered on her encomiums. Economist portrays her as "India's Biotech Queen". New York Times praises her as "India's Mother of Invention" Thus, Kiran Muzumdar Shaw will be a legend in her time in Biotechnology field.

2. Ms.UMA REDDY

Ms Uma Reddy is an Electrical Engineer by profession, has passed out from UVCE with a distinction. She runs M/S Hi-tech magnetic, a SSI, manufacturing transformers, coils and electronic sub assemblies. A first generation entrepreneur, she began her career, while in her final year of college designing printed circuit boards. After graduating in 1985, she diversified into PCB assembly, Electronic Equipment assembly and wiring as a sub contractor to Bharat Electronics ltd.

Her company became a registered vendor for other major electronic companies like Bharat Heavy Electricals ltd, Baba Atomic Research Centre etc. But in 1992, there began a decline in orders for electronic assemblies. De-regularization of import controls and removal of protectionism had threatened the survival of this industry. So, keeping in view the skills of the employees, she diversified into manufacture of electronic transformers and coils as this required the same amount of finesse for soldering. Thus in 1993, she started M/S Hi-tech Magnetics to manufacture transformers, coils, chokes, inductors as custom built products. She has also been changing and adapting to the trends and demands of the industry. M/S Hi-tech Magnetics is as ISO 9001-2000 accredited by NQA and has received the following awards.

- 1990 received Appreciation Award from AWAKE in recognition of achieving spirit and enterprise.
- 1999 received the Performance Award from M/S GE Medical Systems, South Asia in recognition of outstanding contribution towards quality cost and delivery.
- 2000 received Priyadarshini Award from FIWE in recognition of achieving spirit and enterprise.
- 2003 received National Award as women entrepreneur in the SSI sector for M/S hi-tech magnetic.
- 2005 received Karnataka state Rajyotsava award for social work in women entrepreneurship development.
- 2006 received Kirloskar Award.

During her tenure as president, AWAKE signed an MOU and entered into partnership with EU in undertaking a prestigious project EU-India Economic Cross Cultural Program' (EUCCP for training of trainers in trade promotion) with partners being Sequa, Germany; DANSK Industry Denmark; ZDH, Germany; AWAKE and FKCCI, Bangalore, India in April 2004.

She is a member of the NMCC-National Manufacturing competitive council, Govt of India, director on the board of Canbank Factors, a subsidiary of Canara

Bank, committee member of National Institute for Entrepreneurship and Business Development, Ministry of SSI, Government of India, Focal Point, South Asia for the commonwealth business women leader's Network, an Executive Committee member of CLIK (Consortium of Electronic Industries of Karnataka).

3. SHRI LAXMI KAMATH

Not born in business family, the entrepreneurial talent was recognized by her husband. He encouraged her to establish her own business (after working in Vijay bank for 2 years). The result was launching Rohit Thermo plastics in 1973 to manufacture automobile companies out of engineering plastics.

She was the first women entrepreneur in Rajajinagar Industrial Estate, Bangalore and has been in the business for over 30 years.

Engineering plastics was new raw material at that time which came as a substitute to metals. She started manufacturing import substitutes and supplied plastic components to MICO, AMCO batteries, International Instruments

Being very enthusiastic entrepreneur, she has appointed 30 young women to work on automatic moulding machines and assembling departments.

Adding another feather to her cap, Sri Laxmi kamath, entered into the manufacturing of very prestigious item-jewelry.

As a managing director of ABHARAN JEWELLERS, she is engaged in manufacturing Diamond and Gold Jewelry and opened ABHARAN which is only ISO accredited showroom in Karnataka, as of today.

She has been very humble and successful entrepreneur and her dream is to guide young students especially from rural arias and towns to achieve their goals and fulfill their dreams as entrepreneurs. To support these rural women, she runs a hostel to make their stay convenient to learn the entrepreneurial skills.

She has travelled abroad widely to understand about the women entrepreneurship development programmes and has involved herself in women empowerment programmes of AWAKE, FKKCI, etc… holding key positions.

4. Mrs. RAJ BHASIN

Mrs. Bhasin, a soft spoken lady with steadfast determination, who has emerged to be a successful entrepreneur. With a Masters' degree in sociology and education, she started her career as an Academician. It was only after her nuptial with Mr. Sushil kumar Bhasin that she discovered her aptitude for business. Behind every successful man there is a woman, this thing got reciprocated with this couple that Mr. Bhasin played a vital role in his wife's success.

Her creative mind kept her away from following the trodden tracks. She studied usage of granite in the European countries and concluded that granite was largely used in landscaping. She undertook various business trips to Europe to acquaint herself with the trends in these countries so that she could do something different with the way granite was being applied. After returning to India, with her mind abuzz with ideas, she got into making of various landscaping items and dimensional objects in granite with the help of rural artisans and bagged the first order from Germany. Since then there has been no looking back. Bhasin International, headed by her is engaged in exporting finishing granite stones.

Raj made a successful entry into granite exports and received her first export award from CAPEXIL. Raj Bhasin has been the recipient of the CAPEXILL award in 1997-98, 19998-99, 2000-01, 2002-03 AND 2004-05. She also received an award from the Government of Karnataka for excellence in exports during 1994-96 and was declared the "Best woman Entrepreneur in Exports" for the period of 1996-2000.

Apart from directing the various companies in the group, Mrs. Bhasin holds positions in various committees prompting IT, including FKCCI AND AIGSA. To popularize Indian stones abroad, she has opened an office in the USA.

Being a living model of entrepreneurship, Mrs. Bhasin is instrumental in helping many other women realize their entrepreneurial dreams.

5. Dr. K.C.SABITHA RAMAMURTHY

Dr. K.C.Sabitha Ramamurthy is a lady with a vision. Hailing from a literate, liberal and wealthy family married to a highly recognized officer of Indian Police Service. Sri. K.C. Ramamurthy, blessed with two children, Dr Sabhita Ramamurthy highly qualified and loyal housewife did not choose the ease and luxury life. Instead, she selected the very noblest service sector- educational services-to become an educational entrepreneur.

CMR Jnanadhara Trust founded in 1990, became her work station to convert her educational dreams into reality. Functioning as the president of CMRJ Trust, she made a humble beginning by starting National Junior School now called National Public School, which has grown from strength to strength.

Encouraged by good growth of this school, she went on establishing a row of educational institutions in Engineering, management, Bio-science, Literature, Psychology, Journalism, Mass media, Education, Law, Pharmacy, Para-medical courses etc. both at degree and post-graduate levels. CMR group of institutions, in the hands of Dr.Sabitha Ramamurthy has grown leaps and bounds, providing education in different disciplines.

Although she has dedicated herself to her cherished field of education, she has been into other businesses such as Hospitality management, Real Estate, Mineral Water, Pharmaceuticals and Co-operative finance and participates in these business activities too.

She also actively participates in various social activities and has been showered with various Awards including the Prestigious Mother Teresa Excellence award.

6. ARCHANA SURANA

A lady born in a respected family of Rajasthan married to Sri Dilip Surana, the Managing director of Micro Labs - a leading pharmaceutical company of the country having a presence all over the world recognizing has been known for her entrepreneurial skills. Her father-in law sri. G.C.Surana, the founder and chairman of Micro Labs, Placed her as managing trustee of GDA foundation founded in 1995 to establish educational institutions.

Surana College,one of the leading educational institutions of Bangalore offers courses in pure science and applied sciences. Some of the courses include Commerce and Management, Arts and Fashion technology both at degree and post-graduate levels. Centre of post-graduate studies is an exclusive technology driven post-graduate centre which bears testimony for entrepreneurial skills in education of Smt. Archana Surana which made her to exhibit it with the support of her family leaders.

Young lady in her thirties, blessed with a child, had vision to participate in educational sector in a big way. In the process, she has started adopting schools for development of primary education.

A lady soft at heart, work with grit and determination to develop this group with the establishment of advanced courses in Pharmacy, Engineering, Medicine, Law and Education, having the desire to attain deemed university status.

In spite of being the director of Micro Labs Group, she has a special flair for education and sincerely works to become a dedicated educational entrepreneur.

6.8 Government assistance and schemes to promote women entrepreneurs

Promotion of women entrepreneurs:

Around 34% of women in India contribute towards the economy of the country, and the percentage of women from the lower strata of the society is more. It is assumed that most of the women work either in their leisure time or just for supporting the family and they are not the bread winners of the family.

As we have discussed earlier, it is thought that women's primary responsibility is towards the family, especially in rural areas women lack in formal education and discrimination starts right from birth.

1) Steps taken by government:

1. In November 1981 India arranged its first "National conference for women entrepreneurs" at Delhi.
2. The second conference on "women entrepreneurs" was organized by NAYE (National alliance of Young entrepreneurs) in 1989 at New Delhi. It adopted the following declarations:

    a) National and state government should promote women's participation in social and economic development programs. Organize requisite facilities, training and enact legislations to remove constraints in their way. Arrange for transfer of relevant technology and financial assistance.
    b) Financial and expertise assistance should be given to women entrepreneurs doing exports. For this UNO, ILO and National governments must enact suitable measures.
    c) Fairs and exhibitions of products manufactured by women entrepreneurs should be widely displayed and advertised.
    d) UNESCO and the education ministries in different countries should provide necessary literature, course books and publications for the benefits of students.

3. In the seventh five year plan Government of India included a separate chapter on 'Integration of women in Development' for the development of women entrepreneurs. The chapter suggested:
    a) To treat women as specific target groups in all development programmers.
    b) To devise and diversely provide vocational training facilities for women to suit their varied needs and skills.
    c) To promote appropriate technologies to improve their efficiency and productivity.
    d) To provide assistance for marketing their products.

e) To involve women in decision-making process.

4. In the Industrial policy 1991, the Government of India further stressed the need for conducting special entrepreneurship development programs for women with view to encourage women to enter industry. Product and process oriented courses enabling women to start small scale industries are also recommended in the policy statement.

Institutions / Organizations supporting women Entrepreneurs:

Women entrepreneurs have to come across many barriers to start their enterprise and to operate the business successfully.

To empower women, they are to be encouraged, motivated and assisted in gaining financial independency.

These are various institutions / Organizations that are functioning at state and national levels of promote women entrepreneurs.

Promotional organizations:

A. Federation of ladies organizations(FLO):

The women's wing of the Federation of Indian Chambers of Commerce and industry (FICCI) is the federation of ladies organization (FLO).FLO was formed in 1983 as a national level forum for women with the basic objective of "women empowerment".

FLO activities are to enhance the skill set of women through vocational training programmes, talks, panel discussions, seminars, workshops, etc. It covers a wide range of topics; information technology, taxation, insurance, venture capital, stock market operations, accountancy, marketing, mutual funds, investment planning, entrepreneurship development programmes etc. for the benefit of women entrepreneurs.

FLO encourages women to be self reliant, taking charge of their own life, exploit their talent to the fullest and final recognition in the professional world.

FLO has the following spectrum of activities

At the grass root level, emphasis is given on entrepreneurship development programmes for craft persons and others especially in the remote areas of different states of India.

At middle level, FLO organizes regular seminars and conferences in which various eminent professionals form industry are initiated to offer guidance on various issues such as IT, Taxation, Insurance, Venture Capital, Travel and Tourism, Exports, Gems and jewelry, stock Market Operations, Accountancy, Marketing, Mutual Funds, etc. for women to start their own enterprise.

At the senior level, women who are already in a business or profession are provided with skill enhancement programmes like sophisticated management techniques, international marketing, human resource development, financial accountancy, etc.

B. Federation of Indian women entrepreneurs (FIWE):

Federation of Indian Women Entrepreneurs (FIWE), which is a National-level organization, founded in 1993, is today, one of India's Premier Institutions for Women completely devoted towards Entrepreneurship Development, having a large membership base of 15,000 individual members/professionals and 28 member associations spread throughout the country. The objective of the organization is to foster the Economic Empowerment of Women, particularly the SME segment, by helping them to become successful entrepreneurs and become a part of the mainstream industry.

FIWE endeavors to provide: Networking platform for women, Technical know-how, Industry research & expertise, Skill development & training and brings the businesswomen on a Common Forum; and ensures that their opinions, ideas and visions are collectively and effectively taken up with policy makers and various other agencies respectively for the development of Enterprise in Women.

The main objectives of FIWE are as follows:

a) To provide training facilities in export marketing and management, domestic marketing, quality control and standardization. They also emphasize on managing enterprise law, regulations, and procedures for women to successfully run small and medium enterprises.

b) They also help small and medium entrepreneurs to network within the country and with SME and Women Entrepreneur counterparts in 96countries of the world

c) To provide greater access to latest technologies, know-how and help in the expansion of small and medium enterprises run by women.

d) To facilitate participation in international and regional fairs, exhibitions, seminars, and symposia for women so that they get greater exposure to regional and global business environment and opportunities.

e) To effectively articulate the problems and constraints faced by women entrepreneurs in identifying business opportunities, management of enterprise at various stages.

f) To enhance access to term loans and working capital

g) Assist in the identification and investment opportunities.

C. National Women's Development Corporation (NWDC):

National Corporation (NWDC) serves all women especially rural and urban poor in following areas through promotion of women Development Corporation in all stages.

a) Preparation of shelf of viable projects

b) Provision of training

c) Provision of technical consultancy services

d) Provision for facilities for women entrepreneurship training

e) Provision of necessary linkages

D. Consortium of Women's Entrepreneurs of India (CWEI):

Consortium of Women Entrepreneurs of India – was started in the year 1996. CWEI is accredited to Govt. of India and is a Member of National Board, Ministry of MSME and is working closely with Ministry of Rural Development to support the women of BPL families in India.

CWEI activities are linked with product development and training women. It also connects Indian entrepreneurs and the overseas agencies for marketing and exports

Few of the activities of CEWI are :

- Conduct Training
- Help and guide women entrepreneurs on Product Development, Designing, Technology Transfers, Skill Up gradation, formation of Groups, Bank Linkages, Micro Finance, Hand Holding, Mentoring, Capacity Building and Follow Up.
- Assist women entrepreneurs in Marketing – Retail & Wholesale and Export conducting National and International Trade Shows.
- Organize Haats and Bazaars,
- Arrange buyer seller Meet
- To network and to alliance in building focal point in 42 countries.

E. Women's India Trust (WIT):

The trust was started by Kamila tyabji in the year 1968 to provide training to less privileged and unskilled women in Mumbai. She made a small beginning with two shops in Mumbai and a training and production centre. WIT centre at parnvel, 40 km from Mumbai.

The trust was started with the main objective of helping women entrepreneurs. Since then WIT has helped many women to develop skills and earn a regular income; this has changed their lives and the lives of their families.

The main objectives of WIT are :-

- To nurture the talents of women who have no special skills, both in urban and rural areas, so that they can contribute to the economy.
- To help them actively with ideas and skills in voluntary as well as paid work, and to upgrade their talents so that they may become productive members of society.
- To institute training methods on the job, so that needy persons may be enabled to both earn and learn.
- To enable women to be self supportive by assisting in marketing of the products produced by them.
- To advance any other project of general public benefit, including the welfare of women and children and the welfare and general advancement of the less advantaged classes.
- To undertake such products as the society may think appropriate with the objective of improving the condition of the people of India, economically, morally, socially and culturally.

F. Self –employed Women association (SEWA):

SEWA is a trade union registered in 1972 under trade union act. It is an organization of proof of Self employed women workers. These are women who earn a living through their own labor or small business. The SEWA members are not coming from the organized sector. They are the women of unprotected and un-organized sectors. They constitute nearly 93 percent of the women force of the country. However, their work is not counted and invisible.

SEWA's main goal is to organize women workers for full employment. Full employment were by women workers to obtain work security, income security, food security and social security. SEWA ensures that women in every family obtains full employment, through SEWA; these helpless labor forces could have an easy access to credit, child care, health care facilities, etc.

SEWA organizes workers to achieve their goals of full employment and self-reliance through the strategy of struggle and development. Self reliance means that women should be autonomous and self-reliant, individually and collectively, both economically and in terms of their decision making ability. SEWA has been supporting its members in capacity building and in developing their own economic organizations.

There are three types of self-employed women workers:

a) Hawkers, vendors and small business women like vendors of vegetables, fruit, fish, eggs and other food items, household goods and clothes.

b) Home-based workers like weavers, potters, bidi and agarbatti laborers, construction workers, contract laborers, handcart pullers, head loaders, domestic workers and laundry workers.

c) Manual laborers and service providers like agricultural laborers, construction workers, contract laborers, handcart pullers, head loaders, domestic workers and laundry workers.

SEWA has international affiliations. One with "Home Net" the international network for home based workers and the other with "Stree Net International" an association of hawkers and vendors. SEWA has extended its operations to the global level and has the opportunity of receiving grants from international organizations, such as Food Foundation, UNICEF, (The United Nations International Children's Education Fund) ILO (International Labor Organization).

G. Association of Women Entrepreneurs of Karnataka(AWAKE):

AWAKE was established in 1983 and has been recognized worldwide. It is an affiliate of Women's world Banking, New York. It is one of India's premier institutions for women totally developed to entrepreneurship development. The mission of AWAKE can be broadly described as "empowering" women through entrepreneurship development to improve their economic condition".

Schemes of government aided institutes for women entrepreneurs.

1. **Self-Help Groups (SHG):** Women in rural/ urban areas form a small but economically homogenous group, which helps women to save mutually agreed contribution on a voluntary basis. The

fund contributed by the members of the group acts as seed money, and NGOs, financial institutions, and banks take care of the rest of money.

Each member of the group can avail loan .From this loan they even start small enterprises at home. An example of such self help group in Karnataka is "Stree Shakti". Government of Karnataka is providing funds for women entrepreneurs through financial institutions for this scheme. This scheme has been running for the last five years.

The self-help group's activities does not stop at the funding part. It also has to conduct meetings regularly, train their members from the trainers identified in their areas of activity.

In the rural areas SHG helps in empowering women who donot have formal education, or training. It also trains them in enhancing their decision making capacity, increase their strengths, builds self confidence to solve their problems, also it teaches them to handle money matters.

2. **Credit Institutions:** H. Small Industries Development Bank of India (SIDBI): SIDBI has several tailor-made schemes to assist Small Scale Industries, which includes tiny industries, village and cottage industries. These schemes are made tailor-made for the requirements for setting up of new projects, expansion, diversification, modernization and rehabilitation of existing units.

   SIDBI also has schemes for women entrepreneurs. These schemes provide assistance on financial terms to set up industrial units in SSI sector. These schemes are operated through the commercial banks, State Financial Corporations, state co-operative banks and regional rural banks. Some of these schemes are :-

a) **Mahila Vikas Nidhi (MVN):** Mahila Vikas Nidhi is established for funding women for their economic development. The funds are routed through accredited NGOs to poor women especially in rural areas. It provides training and employment opportunities.

   In this scheme a judicious mix of grant and the amount of loan to be given is decided by the bank. The primary activity of this scheme is to set up training centers with production facilities. This scheme needs the support of NGO's that can secure financial assistance.

b) **Mahila Udyam Nidhi(MUN):** This scheme aims to provide soft loan (Quasi equity) assistance to women entrepreneurs besides usual term loans for setting up industrial units in the small scale and tiny sector, as also for undertaking service activities eligible for assistance under the SIDBI refinance scheme.

The loans provided for the following activity

- Establishing new projects in tiny and small-scale sectors for manufacture, preservation or processing of goods.
- For expanding, modernizing and upgradation of existing tiny and small scale industrial units and services enterprises.

Soft loan up to 25% of the project cost with a ceiling of Rs.2.50 lakh per project is given. In addition, term loan may be sanctioned as per usual norms under Refinance Scheme of SIDBI.

c) **Marketing Fund for Women (MFW):** Under this scheme, funds are available to women entrepreneurs and organizations involved in marketing of products and services manufactured by women entrepreneurs for marketing of their products not in domestic market but also in international market.

The eligible borrowers are:

i) SSI units owned and managed by women entrepreneurs.

ii) Marketing related service providers, organizations, units in the corporate, co-operative and NGO sections which are providing support services like internet, trade related information, advertising, marketing research, warehousing, common testing centers etc. to enterprises owned and managed by women entrepreneurs.

Besides providing financial assistance as mentioned above, SIDBI could also consider, on a selective basis, developmental assistance by way of soft loans/ grants for organising group activities and programmes such as trade fairs, exhibitions, buyer-seller meets, seminars, workshops, training programmes, etc. to promote marketing of products manufactured by women entrepreneurs.

II. National Bank for Agriculture and rural development(NABARD):

NABARD has evolved exclusive schemes for women in rural areas. It provides assistance to them in Non- Farm Development (ARWIND). In this scheme it provides credit as well as promotional components of assistance for training for women, establishment of production units at the sponsoring agencies level or to set up household units with loan assistance from banks.

It helps women in setting up of units, designing products, quality control, procuring raw materials etc., It supports women entrepreneurs for the margin money to set up enterprises and also for the preliminary expenses.

NABARD also provides assistance for marketing of non-farm products of rural women (MAHIMA). Assistance is provided for Promotion of marketing of products produced by women entrepreneurs .

- Market survey , Quality control , Technology upgradation
- Capacity building including training and awareness programmes on marketing
- Design development and packaging design
- Branding ,labeling, preparation of catalogues
- Publicity including data building and documentation
- Organizing women and common marketing facilities
- Setting up of showrooms, sales outlets, mobile vans
- Organisation /participation in exhibition and melas etc

3. Financial Assistance Schemes of Commercial banks.

Banks have come forward to provide financial assistance to women entrepreneurs. Some of the schemes offered are described below

A. SBI Stree Shakti package:

The SBI introduced Stree Shakti Package in the year 1989 to develop women entrepreneurs. Highlights of this package are as follows.

a) Under this scheme, SBI along with the staff of SBI staff training college and its branches organizes entrepreneurship development programs (EDPs), for women entrepreneurs.

b) The local branches of SBI, the branch managers and the loan officers provide assistance and support to women to start their own enterprises.

c) Under this scheme each woman entrepreneur is given financial assistance in the form of loan to the tune of Rs.25,000 without any collateral security.

d) In addition to the loan, a discount of half percent is allowed on the interest charged.

e) Loan proposals of women entrepreneurs can be sanctioned within a period of 30 days from the date of receipt of the application form. But in case of high value proposal and when there is the involvement of more than one financial institution, this stipulation is ignored.

B. Bank of India' Priyadarshini yojana:

The scheme aims at providing financial assistance to the women entrepreneurs who come under the following categories.

I. Small business, e.g. Beauty parlor, laundry, lending library, etc.

II. Retail traders, e.g. Fair price shops, general stores, etc.

III. Road transport operators, e.g. Auto rikshaws.

IV. Professional and self-employed, e.g. Chartered accountants, lawyers and doctors.

V. Allied agricultural activities.

Under this scheme, women entrepreneurs need to have a margin money of only 20 percent. The bank provides financial assistance in form of term loans to a maximum extent of Rs. 2,00,000 and Rs.1,00,000 for working capital, normally to be repaid within a span of 3 to 5 years. The assets acquired with the help of banking finance should be hypothecated to the bank as security.

Apart from this the following schemes are in operation to help the women entrepreneur in obtaining financial assistance.

I. Prime minister's rojagar yojana (PMRY).
II. Self-employment program for urban poor (SEPUP).
III. Swarnajayanti Gram Swarojgar Yojana (SGSY).
IV. Integrated rural Development Program (IRDP).
V. Micro –finance through Rastriya Mahila Kosh (RMK).

6.9 Summary

Women entrepreneurs have always been contributing to the society in their own ways. There is a growing awareness among women that they can start a new enterprise which helps them to attain financial independency, self-sustenance, social status and professional achievement . They have to perform all those functions that any entrepreneur would do to start and run the enterprise i.e. innovation, risk bearing and organization and management.

There are many challenges which are being faced by women entrepreneurs'. One of the major problems faced by women entrepreneurs is that they are women. The problems are due to a woman's duties and responsibilities towards family and work. Women entrepreneurs are not only contributing towards the economy of the country but are also working at raising the socio-economic status of women.

Problem to access finance, limited mobility and main dominated society are some of the major problems faced by a woman entrepreneur. But, we have many examples of successful women entrepreneur. Around 34% of women in

India contribute towards the economy of the country, and the percentage of women from the lower strata of the society is more.

Government has taken many measures to promote women entrepreneurs in India. There are many organizations which help and encourage women entrepreneurs in India. FLO, FIWE and SEWA are examples of such organizations.

Trade Related Entrepreneurship Assistance and Development (TREAD) scheme for women

This scheme provides women with proper trade related training, information and counseling along with extension activities related to trades, products, services etc. Along with that, Government Grant also provides up to 30% of the total project cost as appraised by lending institutions which would finance the remaining 70% as loan Assistance to applicant women. It mostly helps poor & usually illiterate/semi-literate women to get started on their business.

2. Mahila Vikas Nidhi

This fund has been set up by SIDBI to help women in rural area start their entrepreneurship easily. It grants loan to women are given to start their venture in the field like spinning, weaving, knitting, embroidery products, block printing, handlooms handicrafts, bamboo products etc.

3. Co-operative Schemes

Women co-operatives schemes were formed to help women in agro-based industries like dairy farming, poultry, animal husbandry, horticulture etc. with full financial support from the Government.

4. Government Yojanas

Swarna Jayanti Gram Swarozgar Yojana and Swaran Jayanti Sekhari Rozgar Yojana were two important schemes launched by the government to provide reservations for women and encouraging them to start their ventures.

5. Private Organisations

Several NGOs, voluntary organizations, Self-help groups, institutions and individual enterprises from rural and urban areas are working to help new women entrepreneurs to set up their business and run it smoothly.

Closing Case Study:

Mr. Sanjay Nadkari is 27 years old who is a graduate in Electronic Engineering. His father is working in Accountant General's Office. He has one elder brother who is a Salesman in Newtron, a leading manufacturer of consumer electronic items. He has one elder sister who is married to a school teacher. He has two younger sisters aged 12 and 17 who are studying. Mr. Sanjay's father has only one year of service left and none of Mr. Sanjay's family members are in business.

In the year 1989, Mr. Sanjay completed his degree course with specialization in electronics. During his college days he came across Joseph a senior student whose father had a small scale industry for manufacturing electronic toys. Sanjay was so friendly with Joseph that he used to visit his father's factory very often. During one such visits he got the idea of starting some electronic industry.

After completing the degree course, Mr. Sanjay had a talk with his father about the future plans. Mr.Sanjay's father advised him to take up a job in Newtron whose proprietor is his good friend. It was only then that Sanjay told his father of his plan to set up some electronic industry. His father's reaction was not very satisfactory. Sanjay was told by his father that being a government employee he will not be in a position to provide funds to Sanjay for industrial venture. Sanjay's determination to become an entrepreneur did not weaken in spite of lack of financial support from his father.

Then, Sanjay went to Bombay and started working for a private company manufacturing mini computers. Due to his dedication and hard work, he got quick promotions. By the end of 1992, he had saved around Rs.40000.

Even when he was working in Bombay, he started looking around for identifying a suitable product line so that one day he could set up a small scale unit of his own. Finally he came across the idea of manufacturing electronic educational aids which could be connected to any television set just like TV games. By the end of 1992, he already had a bankable project report with him. The total cost of the project worked out around Rs. 3.00 lakhs, being an assembly unit. He thought that with whatever money he had saved, he can start the project and if necessary his friend Joseph whose father is already an industrialist will provide some financial backing. With this in mind he left his job in Bombay and came back to his town i.e., Bangalore on 1st April, 1993.

His father was surprised to know that Sanjay resigned the job. Only when Sanjay explained his plans to his father and told him that he already saved Rs.40,000 for his venture, he agreed to provide moral support. Sanjay then approached the Branch Manager of a leading bank and requested for financial assistance to start his venture.

Q. What are the various characteristics of an entrepreneur which Mr.Sanjay possesses?

Q. What are the various competencies of an entrepreneur demonstrated by Mr. Sanjay?

Summary

The term entrepreneurship has grabbed a lot of attention over the last five decades as the small firms contribute significantly to economic growth. The word entrepreneurship is derived from the French word "entreprendre" which means "to begin something" or "to engage in". Entrepreneurship means to start a new business and face up to the challenges that might come its way. It involves innovation and fulfilling the needs of people with a profit motive. The person who undertakes this endeavor is an entrepreneur.

Entrepreneur Vs Intrapreneur

It is interesting to understand various aspects of entrepreneurship, their nature and characteristics. In modern times we do see entrepreneurs in corporate and are known as intrapreneur, different from entrepreneur.

Entrepreneur Vs Entrepreneurship

Entrepreneur is a person who has the capacity to take conception, organization and management of a venture. He organizes the resources. He takes the risk. He is an innovator of new product or process or services. Entrepreneurship is a venture. It is a process. It is an organized form of resources. It is an activity of taking the risk. It is the process of innovation of new product or process or service.

Various attributes and characteristics of a successful entrepreneur are discussed so also functions.

Entrepreneurs in Indian Economy have contributed immensely to growth of economy in terms of employment generation, optimization of capital, balanced regional development, mobilization of local resources and creating innovation.

It also interested to know there is entrepreneurial culture which is discussed.

1.12 Self Assessment Questions

Fill in the Blanks

1. Entrepreneurship is a process which is …………..
2. ……………… is a person who has the capacity to take conception, organization and management of a venture.
3. ……………….are employees of established firms who have a creative mind and who act as an entrepreneurs within the organization.
4. Entrepreneurs are driven by………………..
5. Entrepreneurs help in…………………….
6. Entrepreneurs play a vital role in………………..
7. Entrepreneurs act as a …………in large business houses.
8. Promotion and advancement of entrepreneurship helps in …………………..
9. An entrepreneur is a…………………..
10. Entrepreneurship is the cause of.......................................

1.13 Terminal Questions

(2 marks questions)

1. Define entrepreneurship.
2. Define entrepreneur.
3. Give any two differences between an entrepreneur and intrapreneur.
4. Give any two differences between entrepreneur and entrepreneurship.
5. Mention any two characteristics of an entrepreneur
6. What is entrepreneurial culture?

(5marks question)

1. What is entrepreneurship? What are the characteristics of entrepreneurship?
2. Who is an entrepreneur? What are the attributes of an entrepreneur?
3. Give differences between an entrepreneur and an intrapreneur.
4. Give differences between entrepreneurship and entrepreneur.
5. What are the various characteristics of an entrepreneur?
6. What are the characteristics of entrepreneurship?
7. What are the various competencies of an entrepreneur?

(14 marks question)

1. What do you mean by the concept of entrepreneurship? Define entrepreneurship. What are the various features of entrepreneurship?
2. What do you mean by the concept of an entrepreneur? Define entrepreneur. What are the various features of an entrepreneur?
3. What is the role of an entrepreneur in an Indian Economy?

1.14 Answers

Answers to Self Assessment Questions.

1. Action oriented.
2. Entrepreneur
3. Intrapreneurs
4. Achievement motivation
5. Employment generation
6. Balanced Regional Development
7. Feeder
8. Distribution of economic power
9. Change agent
10. Economic development

Answers to terminal Questions

(2 marks questions)

1. refer to section 1.2
2. refer to section 1.4
3. refer to section 1.5
4. refer to section 1.6
5. refer to section 1.7
6. refer to section 1.10

(5 marks questions)

1. refer to section 1.2 and 1.3
2. refer to section 1.4 and 1.7
3. refer to section 1.5
4. refer to section 1.6
5. refer to section 1.7
6. refer to section 1.3
7. refer to section 1.8

(14 marks questions)

1. refer to section 1.2 and 1.3
2. refer to section 1.4 and 1.7
3. refer to section

MODULE - 2

Steps in Entrepreneurial Venture

MODULE - 2
Steps in Entrepreneurial Venture

Structure

2.1 Introduction
2.2 Business Planning Process
2.3 Environmental Analysis- Search and Scanning
2.4 Identifying Problems & Opportunities
2.5 Defining Business Idea
2.6 Basic Government Procedures to be complied with
2.7 Summary
2.8 Questions
2.9 Answers

Learning Objectives

On the completion of this chapter you should be able to understand

- The nature and overview of business planning process
- Search and scanning of the environment
- Identifying the problems of the venture and opportunities to explore
- The meaning of business idea
- Basic government procedures to be complied with

2.1 Introduction

Business decisions are made on the basis of business idea. If the business idea is described in a simple, clearly defined and written format then decision will become easier. In formulating and strategizing a business idea, we need to articulate and develop business strategy tactics as a written document which will ultimately result is rigorous analysis and greater clarity of thought. This process can be defined as business planning process.

The critical part of a new venture is the selection of a product/project selection. Focus should be on the methods adopted in selection and identification of the product, the criteria adopted. Thus one should focus on product selection, recognition, screening, scanning and finalization.

It is a known fact that no two businesses are identical and no two business plans are ever alike but all business plans follow almost identical steps when it comes to starting a venture. Thus business plan is a story of an idea which is executed to achieve its objectives in a coherent, consistent and cohesive manner. The story will focus on the needs of a consumer; it will plan the market, the growth prospects, identify the target customers and the main competitors. The most significant feature of a good business plan is based on the set of credible assumptions on the basis of which the business perceives the success of the business idea. It identifies the risks, the potential downsides and the actions which need to be taken to handle the issues. In summary, it is a blue print for a good business.

We shall discuss the events in the following sequence:

1) Business Planning Process
2) Environmental Analysis-Search and Scanning
3) Identifying Problems and Opportunities
4) Defining Business Idea
5) Basic Government Procedures to be Complied With

2.2 Business Planning Process

Businesses in today's world face lot of challenges. Business Planning Process involves extensive planning using data drawn upon a number of assumptions. Thus a business planning process is critical and important. Irrespective of how uncertain the future may be, the stakeholders, the financial institutions and other supportive institutions will need to approve a project and they will look for a formal business plan with a comprehensive plan process. A document with a comprehensive business planning process will be of great value to an entrepreneur who is trying to achieve his dream of bringing to reality his business idea business idea by using the document to monitor evaluate and strategize as the business is implemented.

The Nature of the Business Planning Process

The business planning process should be an unending exercise that has to be regularly conducted. The pace with which a business undergoes change will be a deciding factor of how frequently a business plan should be reviewed and updated. If an industry moves fast then brisk and regular business planning activities are required because of need for quick decision making. Some even adopt for changeable business plan approach so that regular incorporation of changes and updation can be made with the changing business environment and the market. A technique known as scenario planning may be used to predict what changes may take place in future and what are the warnings and danger signals which are arising that a particular sequence of events may emerge in future. The environment should be continuously observed and if the changes are taking place in the market, then the modification and review of the business plan should be done accordingly.

Overview of the Business Planning Process

The Business Planning Process must be compliant, easily modifiable and an unending exercise providing assessment at every stage. It should be adaptable to meet the needs of the organization. Following is the overview of a business plan.

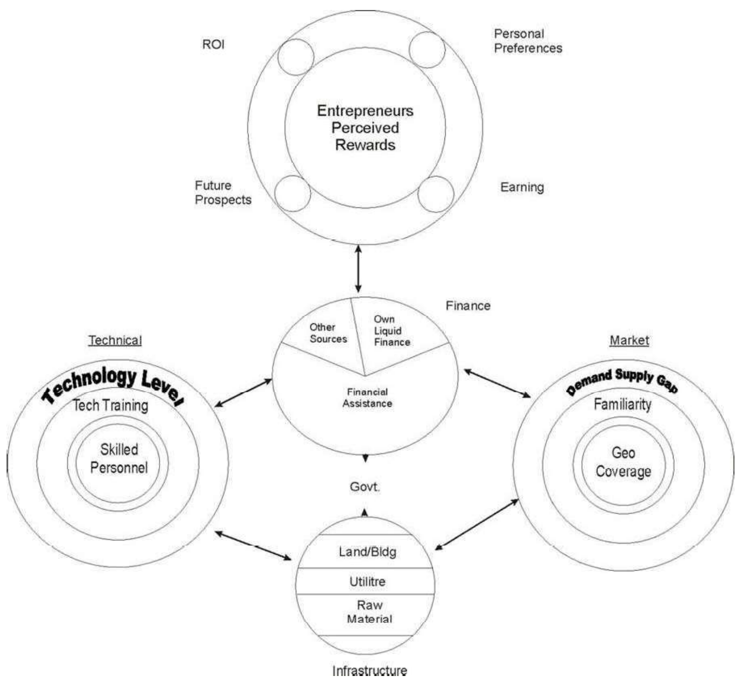
1. **Strategic Planning:** Strategic planning is a management tool for making decisions about the future keeping in mind the present sequence of events. That is, a strategic plan is a road map to lead an organization towards attaining its goals. It takes into consideration the main objectives and the output of the business. It is a systematic and continuous decision making process which takes into consideration the customers, suppliers, competitors, business environment, industry analysis, firm analysis, product and portfolio analysis and also the stakeholders analysis.

2. **Marketing Plan:** Considering the current state of affairs of the business and its environment, the future may be examined by the planning process. Techniques like scenario planning may be used to predict the market for the future taking care of the present environment and the steps taken by the competitors. Various marketing strategies should be made and the business plan should be flexible enough to adapt to alternative marketing strategies and how the business should proceed with it should be taken into account.
3. **Operational Planning:** At this stage, the vision, mission and objectives of the business should be clear so that the alternative strategies can be adopted to go further. The objectives may be further broken into small operational plans which should define how the action should take place. A financial model should be built at this stage of business planning process.

The Business Planning Process

4. **Business Model:** A business planning is a framework for testing the strategy and operational plans of the business, whether it will help in achieving the goals of the business or not. It describes the revenue a business may generate and the expenses it may incur. The quality of the strategy adopted may be assessed, but a business model also allows the strategic choices to be evaluated quantitatively with the help of internal rate of return, net present value and the payback period. In other words a business model discovers the financial strength of a strategic plan and through a repetitive process the strategy and tactics keep on changing until the final solution is reached.

5. **Examine Funding:** Business model can be used as a key to evaluate the funding requirements and to know the period, as to how long the funds are required. With the aid of the business model, those who will sanction the funds, be able to thoroughly examine the funding requirements of the firm.
6. **Risk Analysis:** Investors are concerned about the risk involved in the project. Qualitative risk analysis can be done to identify the probable risks. Business model can also be used to do the quantitative risk analysis and describe the variables which can affect the output. Further, sensitivity analysis can be performed. In general risk analysis is done after the financial strategy has been framed.
7. **Approval of Business Plan:** At this stage the business plan is completely framed and written to make it consistent. Later it is presented to those who will finance the project and sanction the implementation of the plan.
8. **Implementing the Business Plan:** This is the final stage where a business plan which has been approvedis implemented and actions that will be taken.



Participants in the Business Planning Process

In small organisations the owner or the manager may take the full responsibility of the business planning process. In large organisations it may not be necessary that those who perform the work should also write the business plan. But it is always better if the people who work on the plan are involved in writing the plan as well.

There should be one person who will be completely responsible for the implementation and functioning of the business plan. And moreover, the concerns of people who funded the project should be considered while writing the business plan. There should also be a dedicated project manager who will be answerable to the person with overall responsibility of the plan. There should also be a team of people with strong skills who are adept at working on spreadsheets and financial training, experience in working on business models and following the business process plan.

2.3 Environmental Analysis- Search and Scanning

Before starting the business, it is wise on the part of the entrepreneur to generate an idea, which is commercially viable in all respects. There are many factors which affect the business environment some are controllable and some are uncontrollable. The government policy, changes in consumer tastes, advancement and development of new technology are some of the factors over which a business has limited control. The level of inflation, interest rates and exchange rates are the factors which are macro and business taxes, flooding and all are the factors which are micro. While framing a business plan the influence of all these factors in the present scenario as well as the future should be kept under consideration.

Pace of Environmental Change

The business environment keeps on changing and there are three of change namely levels which the environment changes stable, dynamic and turbulent. The business strategy or the business plan is different for different kinds of environment.

1) **Stable** –In this type of environment there is very less change in the environment in which a business operates. If there are any changes then they are easily adaptable without any much modification in the business plan.
2) **Dynamic** – In this type of environment the changes are there but not at such a grave level. Some changes can be predicted and some cannot. Some may be entering the market and some may be leaving the market and business adapts in order to remain competitive in the market.
3) **Turbulent** –This type of market there are a lot of changes that take place which cannot be predicted and the changes are swift. Frequent new development, new entrants, changes in relation between the business parties and others.

Search and Scanning

An entrepreneur first identifies the key elements and their features by a process called scanning environment. The main aim of scanning is to track the change which is under way and giving a proper lead time to business for adopting the change. Thus scanning the environment helps an entrepreneur to make decisions in favor of the business by considering the various factors which affect the business. It helps in understanding the market. It is not just observing the deviation in the environment but also sensing the opportunities out of the present situation.

PEST (Political, Economic, Social and Technological) analysis is a part of the environmental scanning and is used by the companies while framing their business strategies. This analysis reveals the various external factors which affect the performance of business. Following is the list of various environmental factors which affect the business as per the nature of the business:

P-Political

This refers to the degree of intervention of the Government in the economy. Political decisions can influence many areas like health, education and infrastructure. It involves the inclination of political parties. Some of the factors which affect the political environment are:

a) Taxation Policy- Indian economy has a well-developed tax structure. It comprises of taxation policies Union Govt., State Govt. and Urban and Rural local bodies. The taxes and duties which are levied are income tax, custom duty, central excise, state tax, service tax, stamp duty, state excise, octroi tax etc. All these affect the business environment.

b) Deregulations

c) International trade regulations

d) Government Stability

e) International Stability

E-Economic

It involves the tools like interest rates, inflation, exchange rates etc.

a) Higher interest rates may bring the investment down because it makes borrowing costlier.
b) If the currency is strong it may bring the exports down because it will raise the price in terms of foreign currency.
c) Inflation may provoke the demand in terms of wages.
d) The product demand may grow if there is increase in national income.

The factors can be listed as

i) Rates of Interest
ii) Supply of Money
iii) Credit control
iv) Financial markets
v) Inflation in the Economy
vi) Price strategies of the competitors
vii) Globalization

S-Social

The changes in the social and cultural values of an economy and the shifts in demography may occur over the period of time. Hence the changes in social trends can impact the demand of a particular product and service. It is important to take into account the direction in which the society is moving and frame the policies according to the changing scenario of the society. The factors can be listed as:

i) Population Growth
ii) Age Structure
iii) Rural to Urban Migration
iv) Social and Cultural Shifts
iv) Income Distribution etc.

T-Technological

The technological changes can have immense impact on the business. It includes the following

i) The expenditure on research and development done by the competitors which may give an indication if any changes are taken place in the process or new product development.
ii) Whether the introduction of new product creates a new market in the economy.
iii) How the improvement in production process can be done with the use of technology and to gain a competitive advantage.
iv) The rate of adoption of new technique also influences the business plan as it should be considered as to how long it will take for a new product to get adopted in the market.

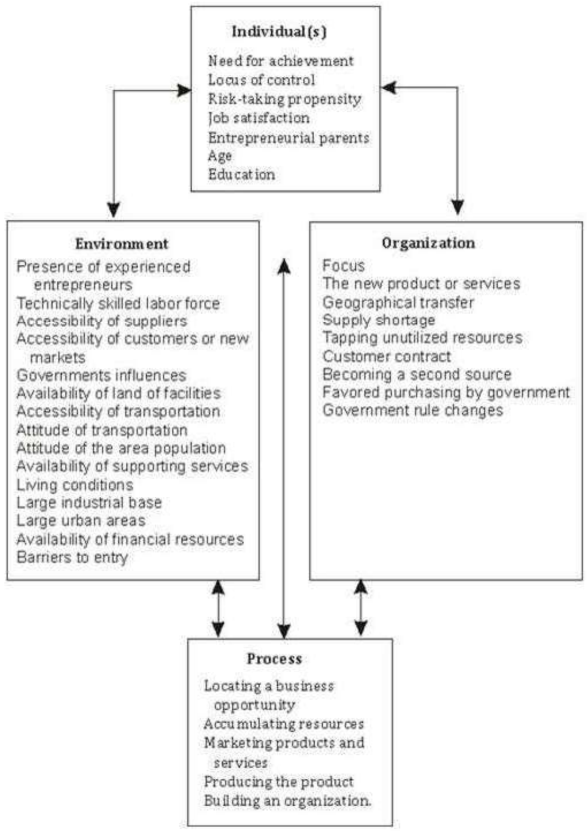
Scenario Planning

Predicting the future is very easy in stable market but prediction becomes uncertain in turbulent markets where nothing is certain and changes are fast and frequent. The pattern may never be the same so the past review and analysis may be misleading. The solution to this problem is scenario planning which provides an approach which is structured to think about uncertainty. There are different situations and conditions in which a business has to operate which are called scenario. They also describe the trends that may feature the development.

Following are the stages of scenario planning:

a) Highly uncertain factors should be identified
b) The various behaviour patterns of those factors should be described
c) The most informative scenario should be selected
d) Writing the description of the scenario

Factors in New Venture Creation



Source:- William B. Gartner, "A conceptual framework for describing the phenomenon of New Venture Creation" Academy of management review (Oct 1985)

2.4 Identifying Problems & Opportunity

Identifying Business Opportunity

Any individual is free to transform an idea into a business in a free economy. A potential entrepreneur has unlimited opportunities. If an individual can recognize a profitable idea, this continuous changing environment provides a continuous flow of potential opportunities.

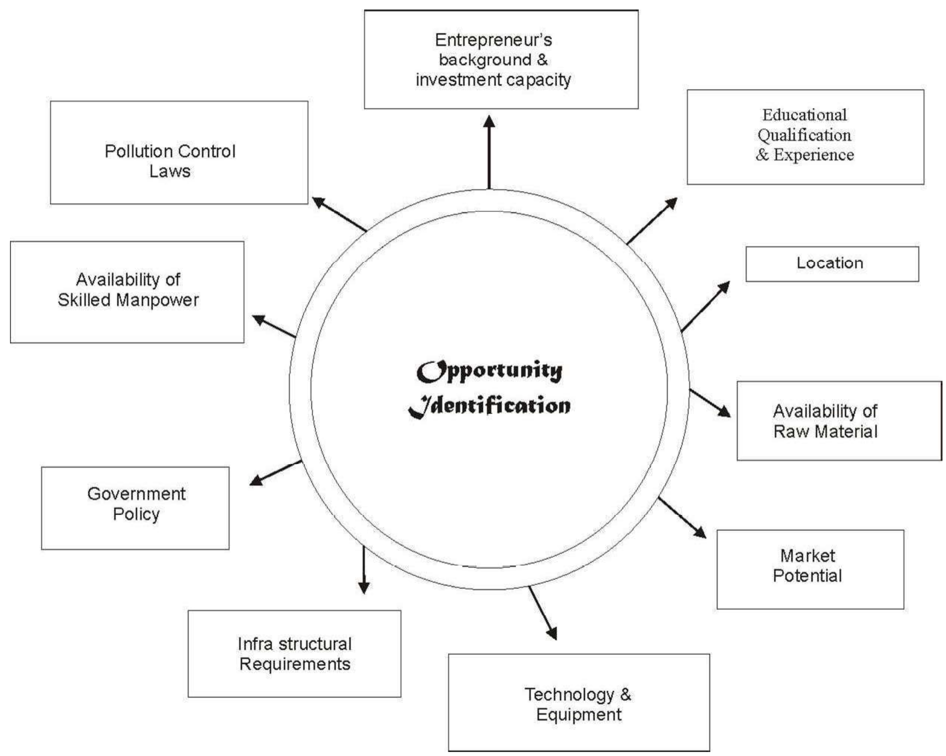
An entrepreneur is termed as an opportunity seeker in practice. He is required to make a choice between the various alternatives available. He is required to select a viable opportunity. So a business opportunity may be defined as finding a possibility of business. The future of an enterprise depends upon the selection of a feasible business opportunity. Unplanned and haphazard selection of a product often results in serious problems in marketing, shortage of raw material, manpower or equipments. If the product is selected after considering all the pros and cons then it helps in healthy growth of the economy

Objectives of Identification of Business Opportunity

1) It is difficult for small firms to change from one product to another due to various administrative and technical problems.
2) It is easier to get assistance from financial institutions over a well thought business opportunity.
3) To evaluate the chances of mobilizing the physical resources of a particular region.
4) Proper selection will minimize the problems of marketing.
5) It is required to consider the cost of capital required, labour, transport, power, fuel etc for a particular project.

Examples of Identifying Business Opportunity

Problem	Need	Business
Hunger	Food	Hotel, Restaurants
Disease	Medicine	Clinic Pathological Service
Boredom	Entertainment	Clubs and Music Groups
Heat	Ventilation	Fans
Theft	Security	Locks, Remote Control Car Key



Steps Involved in identifying Business Opportunity

1) Scanning the Business Environment

It is the process of thinking about the problems and needs of the society in the present scenario and also problems that might arise in future. Scanning the environment involves studying the met and unmet needs and unmet needs are always potential business ideas. Then studying the market shifts, i.e., new needs and new markets.

PEST (Political, Economic, Social and Technological) analysis is a part of the environmental scanning and is used by the companies while framing their business strategies.

2) Evaluation of Opportunities

A number of factors are to be considered while evaluating the opportunities. One needs to possess a good sense of evaluating the business to be a successful entrepreneur. Evaluation of business plan is not the same as evaluating the business opportunity. To determine if a business opportunity is truly valid, it should pass through various tests. The idea should have ready market, should be able to provide solid returns on investment, whether there is any demand and if the idea is really feasible. Can the right people be put together for the business? The market is analyzed considering the market size, growth, capacity to absorb and all. Certain operational issues are also considered like cost structure, opportunity cost and the barriers etc.

A business opportunity can be evaluated by answering the following questions:

1) Is the venture feasible or not?
2) How will the competitors react?
3) How many competitors are there in the market and how strong are they?
4) What is the market opportunity?
5) What are the reasons that this opportunity arise in the market?
6) How much fund is needed to start the venture?
7) Who will finance the venture?
8) How much return can be expected whether huge, small or very large?
9) Does it fit with the type of technical experience of work force being hired?
10) How the barriers to the entry can be overcome?

3. Selection of Opportunities Based on Personal Competencies(i.e., SWOT Analysis)

There are two stages involved in selection of opportunities.

(A)Short Listing of Opportunities or Project Ideas:

In an environment there are unlimited opportunities and a good idea may be generated by a prospective entrepreneur and closer analysis and observations can be made by short listing these opportunities to three or four stages. The entrepreneur can arrive at the final product by doing the SWOT

Analysis(Strengths, Weaknesses, Opportunities and Threats).

It involves two stages:

(1) Assessment of Strengths and Weaknesses
(2) Assessment of Opportunities and Threats

(1)Internal Environment (Strengths and Weakness):

It refers to the analysis of strengths and weakness of an enterprise in an internal environment also known as micro environment. An enterprise depends upon number of factors which indicate whether it is well equipped to make the best use of the available opportunity or not. The ability to make use of the available opportunity lies in a firm's strengths and weakness as compared to that of competitors. This can be done by examining firm's capacity in some operational areas. The internal environment comprises of the

a) Production resources of a firm like availability of raw material, technology for production, availability of work force, the capacity of the plant etc.
b) Financial resources like availability of capital, credit, working capital requirements etc.
c) Marketing resources like the market research, the preferences of customers, advertisement and sales promotion, distribution, product name and brand name etc.
d) Organizational Resources like expertise of the management, the organizational structure, the rules regulations and policies of the organization etc.
e) Human Resources like harmony between line and staff, relations between labour and management etc.

An entrepreneur may take advantage of the opportunity available based on the strengths of the enterprise.

(2)External Environment (Opportunity and Threats):

These are the external factors which either aid or hinder the performance of an enterprise. Some developments may create business opportunities while other events which are unfavorable may hinder the growth of business. So the evaluation of external environment is also known as analysis of opportunities and threats to the organization.

The external factors which affect the organization are often uncontrollable and unpredictable. The trends should be closely watched as to what they will result into. Different opportunities will affect the performance in a different manner and various threats may affect the result in a different manner. The external environment comprises of the:

a) Economic factors like condition of inflation, per capita income, the job market, the labour market, the facility of credit offered by the banks, the consumer price rise etc.
b) Technological factors like new processing technique, innovations, cost of innovations, advanced technological processes etc.
c) Natural factors like natural resources, climatic condition, environmental protection requirement etc.
d) Demographic factors like population, age group, income distribution etc.
e) Socio- Cultural factors like the life style, the attitude and behaviour of the people, consumer awareness etc.
f) Political factors like the industrial policy, taxation structure, liberalization policies, incentive schemes, stability of the political environment, the entry of foreign investors etc.
g) Legal factors like commercial and industrial laws, import export regulations, monetary policies etc.

Therefore, all the above factors whether internal or external should be kept in mind while selecting the opportunities as these play a vital role in affecting the performance of an enterprise.

(B)Finalizing the Selection of Product.

Generally two or more products are short listed and a product is finalized out of it. But there are certain things which should be kept in mind

a) The investment to be made
b) Return on investment
c) Sales Volume
d) Profitability

The final product selected will be taken as a most realistic venture and an entrepreneur needs some information before he starts the venture like

a) Cost of plant and machinery
b) Raw material sources
c) Infrastructure required
d) Required manpower
e) Total finance required
f) Government policy
g) Incentives, subsidies and exemption provided by the Government etc.

Based on the above factors an entrepreneur should choose a product which is commercially realistic and feasible. It should be a product or a venture which can survive in the competitive world and gives long-term returns on the investment made. It should also give a scope for expansion and diversification in the near future.

Problems in Identification of Business Opportunities

An entrepreneur may face the following problems in identifying the business opportunity:

1) **Demand of a proposed product:** An entrepreneur should be able evaluate what will be the demand for the proposed product in the market. Whether it can be absorbed in the market or not? And this demand in general is governed by the level of national income, per capita income and population etc.
2) **Availability of Raw Material:** For a business opportunity the level of production is decided by the availability of raw material.

If the raw material is easily available it motivates an entrepreneur to establish industrial units. If there is shortage of raw material an entrepreneur might find it difficult to establish units as per his wish. He should be able to predict and assess that how the smooth production can take place with the proper supply of raw material.

3) **Availability of Internal Resources:** Due consideration should be given to internal resources by an entrepreneur before venturing a business. The availability of seed capital; personal connections and an expertise in managerial function all are required to start a business. Adequate internal resources should be there to increase the capacity of production and future expansion and diversification. Lack of adequate resources hampers the process to move further.

4) **Availability of External Assistance:** The identification of business opportunity to a large extent depends upon the external assistance available. It involves identification of sources of finance, Government assistance and availability of favourable environment helps an entrepreneur to take decisions. Difficulty in accessing these facilities and assistances will affect the speed of process of identification.

5) **Problem in Analysis of Performance of Existing Business Unit:** The difficulty in making the objective analysis of the performance of existing business units poses problems in identification of business opportunities. It is very difficult to analyze various factors such as the employment potential, fixed and working capital required, fixed assets, financial requirements, marketing problems, the organization structure and the industrial structure etc, all of which affect the performance of an enterprise.

6) **Difficulty in gathering information regarding Proposed Industry Developments:** An entrepreneur takes a decision to establish a business unit after finalizing the product and identifying the business opportunity. Now he has to take a decision to develop and launch a particular product in an industry after undertaking a detailed study of the current situation which is again a difficult task. It is required to critically examine the nature

of product, the additional capacity, expansion of an industry, capital investment required, power requirement etc. It is not easy to have a critical analysis done of all these factors which affect a business performance.

7) **Risks involved in Business:** Starting and carrying forward a business involves various types of risks. Firstly, technical risk which deals with lack of knowledge about the technical processes and advancement of technology. Secondly, economic risks which involve market fluctuations and other market related risks. Thirdly, social risks which involve difficulty in development of relations in the market. Lastly, environmental risks which result from changes in an environment brought about due to the new activity undertaken etc. Thus and entrepreneur has to take care of the impact of these risks on the business and proceed with due care.

Thus above were some of the problems involved in identification of business opportunity and care should be taken by an entrepreneur while deciding a final product taking into consideration the future opportunities also.

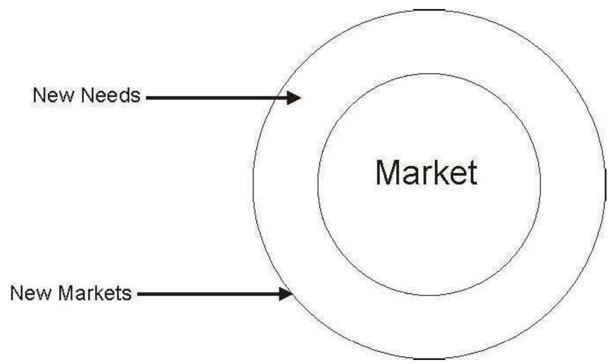
2.5 Defining Business Idea

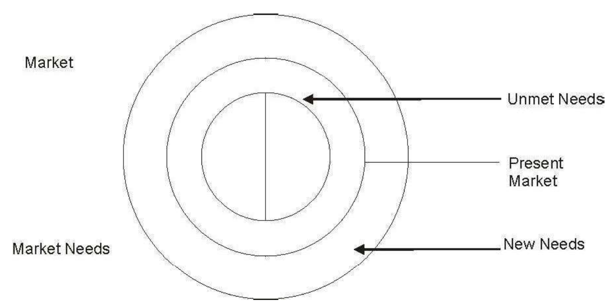
A successful entrepreneur has foresight and quality to visualize and sense opportunities. A very key entrepreneurial function is his ability and eagerness to perceive and receive the curious signals, sieve and process the signals to arrive at a final decision in support of an idea for a venture. An entrepreneur searches and identifies an opportunity before he plans and converts the same to a quality implementable business.

A business must exist in the society and these are needs arising out of challenges in the society, these become the need of the society. The entrepreneur perceives the needs of the society and also the resources available in the environment and this is perceived as an idea which is further converted into opportunity.

Example:

Now a days there are a lot of working women and they have no time to come back home and cook food. They get tired, the timings are odd and all kinds of problems are faced by them. This gave rise to a demand for packed food. This business idea is later converted into a business opportunity. And now there are many readymade food items available in the market, which meet the needs of a working woman.

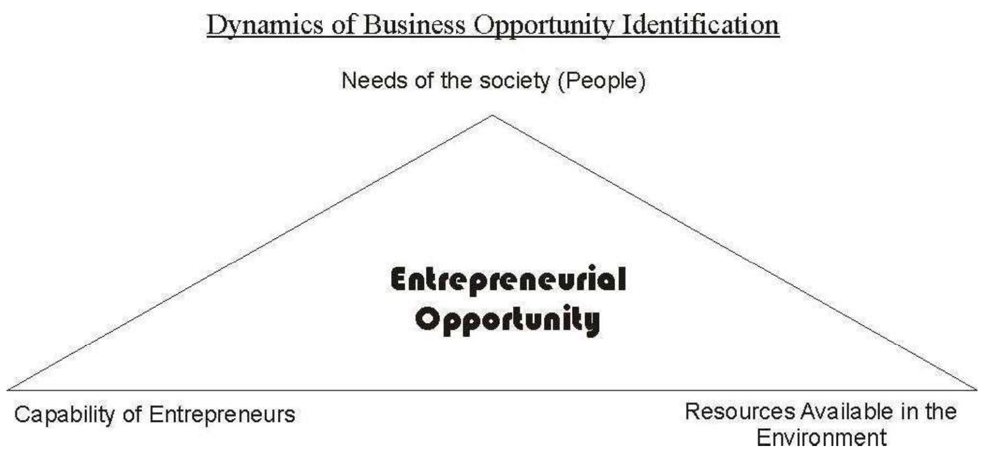




It is this need of the society that needs to be identified as a business idea. Thus an idea emerges out of need to meet the demand of the society, which is later perceived as a business opportunity if it has a good chance of success. The chance of success is its evaluation in the environment in which this idea is going to emerge. A good idea that lands in the hands of a capable entrepreneur has good chances of success. Thus a good idea, a capable entrepreneur and adequate resources are a must for idea to emerge as successful business opportunity.

Dynamics of Business Opportunity Identification

a) **Needs of the society:** People must feel a need, in order to convert an idea into an entrepreneurial opportunity. And if a need is not felt by a society, the idea will remain dormant. If the need is there in the market then it is easier for an entrepreneur to market the product and before finalizing the product the need should be marketed.



b) **Capability of an Entrepreneur:** An entrepreneur may possess variety of competencies as compared to others due to different family background, education, experience, the challenges faced and the exposure and the traits of the personality. These different capabilities make a person suitable for one type of project and less capable for other type of projects. So, to pursue a business opportunity, the matching of required and existing capabilities of an entrepreneur with the desirable capabilities of the project should be taken into consideration.

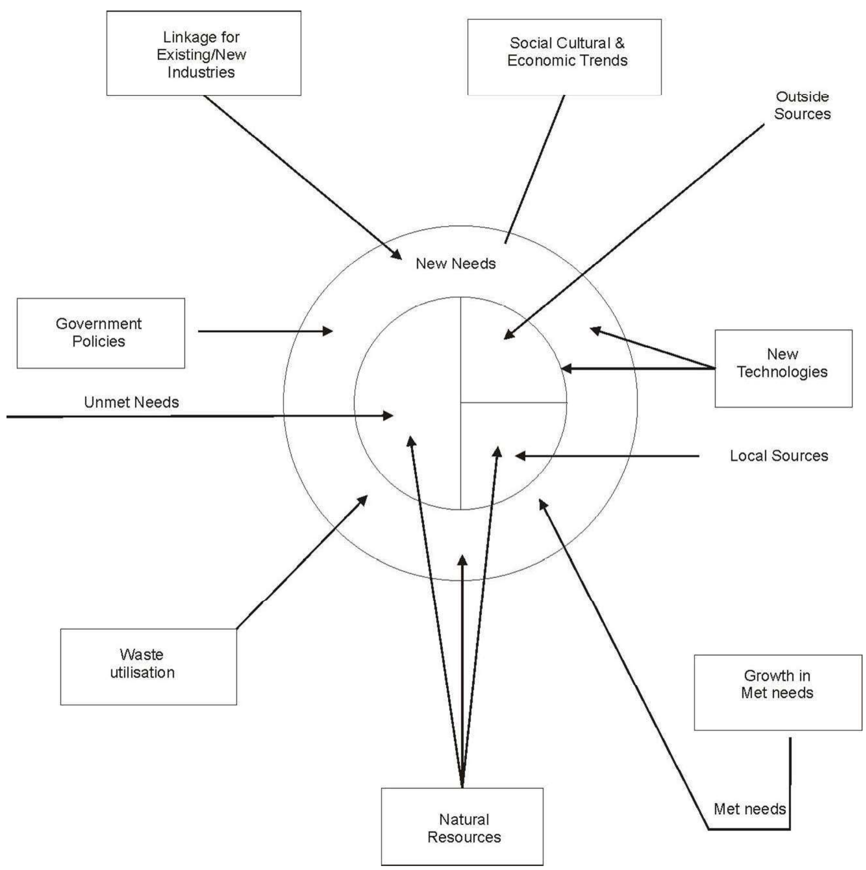
c) **Resources available in the Market:** While framing a business idea the resources available in the market like raw material, manpower, natural resources, financial resources, technology available etc. should be considered so as to ensure the smooth flow of production and functioning of the business

When is an idea an opportunity?

If an idea is not an opportunity then what is an opportunity? An opportunity has the qualities of being attractive, durable, and timely and is converted in a product or service which creates or add value for its buyers and an end user.

Further, entry into the market with right characteristics is feasible and management team is able to achieve the same. Further the most critical will be whether venturing a business is rewarding and making profits and is clubbed with the opportunity for growth

In the real world opportunities are erected and built using ideas and entrepreneurial creativity.



This diagram will explain the process of idea generation. As explained earlier the very source of an idea is the needs, it could be met needs, unmet needs, appreciation of new technologies(eg mobile). The focus of attention is the met needs of the ever changing needs of the society and scope for growth of met needs. While screening the idea-need-opportunity, we must examine the following:

(i) **Natural Resources** - The natural resources available in the environment and the surrounding are to be taken into consideration which can be easily utilized.

(ii) **Technology**– The technology to be adopted should not be outdated and the changes which are taking place should be kept in mind. The advanced technology should be used to keep up at pace with the development taking place in the market.

(iii) **Socio Cultural Trend-** It involves the trend and the changes in the distribution of age, the level of education, the level of income, the population growth etc. All these should be considered while framing the business idea.

(iv) **The Economic Trend –** It involves the trend followed in inflation, the purchasing power of people to be considered.

(v) **Linkage to New and Existing Industries** – Looks around utilization of industries for semi-finished or adhoc supplies to manufacture finished goods

(vi) **Government Policies** – Various policies and laws of the Government need to be complied with, they may be regarding the registration of the enterprise, the health and safety, product safety , labour laws, advertising etc.

(vii) **Wastage Utilization**– If there is any wastage then how it can be disposed or utilized etc.

(viii) **Local Sources** – The local resources which are available in a particular area where the unit is to be established should be utilized to the maximum possible extent whether it is natural resources or manpower availability.

2.6 Basic Government Procedures to be complied with

Setting up of new enterprise is a challenge. It is an economic activity, which is undertaken after formulation of systematic business plan. After considering the technical background a suitable industry and product line is selected, and location for establishing an enterprise is selected after considering the nearness to market, raw materials, transport networks, availability of skilled labor etc. Then a project report covering financial implications, machinery, production process, marketing etc., is prepared. The feasibility of the project is also examined. Thorough planning should be done so as to prevent any delay and mistake in establishing an enterprise. The following things must be considered while establishing an industry:

Step by step planning

1. Analysis of capability and the objectives:
   - 1.1 Whether the personal qualification is in line with the objectives and plans formulated?
   - 1.2 Are all the weaknesses considered and proper care is taken to improve in those areas?
2. Fix a final date:
   - 2.1 Fix the target date of the project by which it should come out.
   - 2.2 Note down the ideas as they occur.
3. Consult publications and agencies:-
   - 3.1 Look up all possible publications on the subject.
   - 3.2 Consult specialists from SISIs, SBI, Private industrial consultants, University professors in Technical and management departments, National laboratories, SSIDC, Small Industries Development Corporation, etc..
4. Discuss with the contacts around you and SISI and DIC offices
5. Target Date should be set for decision

6. Choose a line
    - 6.1 Decide in the light of demand and supply data, resources future forecast for the same.
    - 6.2 Previous experience and technical skills required
    - 6.3 Investment required
    - 6.4 Current conditions in the business
7. Decide on form of ownership
    - 7.1 Sole proprietary/partnership/co-operative/joint stock company (private /public)
    - 7.2 Consider sale and profits and decide on the form of ownership.
    - 7.3 Financial requirements, marketing of goods, etc…
8. Decision as to whether to purchase a going concern or to start a new one.
9. Obtain a project report from Small Industries Services Institute or elsewhere or prepare it yourself on the basis of the data you have collected.
    - 9.1 Precise description of what is required
    - 9.2 Demand and supply and market
    - 9.3 Space, financial requirement, machinery requirement, power requirement, raw material requirement, and personal requirements
    - 9.4 Annual production with break-even point.
    - 9.5 Total capital requirements.

Decide on location and size

- 9.6 Nearness to source of material supply, labour and market, power and other costs.
- 9.7 Which is more desirable, a city, suburb or country location measured by cost and availability of labour, transportation, power, etc.,
- 9.8 Climate conditions important to your product/process.

9.9 Tax rates, type of building needed, provision for future expansion, environment.

Statutory Licenses –If the unit is to be established at a place other than the industrial estates, approved plots etc., license from Municipal Authorities/Panchayat Unions is compulsory. An entrepreneur may contact the respective District Industries Centre for other details on statutory licenses.

10. Arrange the work shed with facilities, preferably on rent

10.1 Check up with Directorate of Industries regarding possibility of getting a readymade shed in an industrial estate

Construction of Shed – Necessary license from Municipal Authorities is to be obtained before construction of shed. To obtain developed plots in an industrial area, the State Small Industries Development Corporation should be approached through the District Industries Centre in the respective District.

11. Make sure what laws will particularly affect you

11.1 Consult your lawyer regarding your responsibilities under central or state legislation or local self-government rules pertaining to matters such as form of ownership, advertising, pricing, priority of goods, royalties, labeling, trade practices, patents, trademarks, copyrights, brand names etc. labour law and factories act etc.

12. Obtain clearances from Central, State and Local authorities and apply for the SSI registration number

12.1 Obtain Income tax and the sales tax registration numbers

12.2 Apply to District Centre for SSI Registration.

Provisional Registration-Once the decision is taken on a project, an entrepreneur should approach the District Industry Centre and obtain a provisional SSI Registration Certificate.

Permanent Registration – An industry is later eligible to get a Permanent Registration Certificate from the District Industries Centre, after it commences production and the first invoice is generated.

13. Plan finance

13.1 Determine how and from which agency you can get maximum financial loan, even if you have maple money of your own.

13.2 Invest the least in fixed assets and yet more so from your own sources.

13.3 Keep adequate financial reserves to meet emergencies

13.4 For obtaining machinery on hire purchase, contact National Small Industries Corporation(NSIC)

13.5 For cash loan for land and building, contact State Director of Industries and SFC

13.6 For working Capital requirement, contact SBI or any other bank

14. Plan sources of machinery

14.1 Sources of machinery can be obtained from SISI. They would even assist you in selection of suitable machinery

14.2 For hire purchase contact (National Small Industries Corporation)NSIC. The NSIC supplies indigenous and important machinery on hire purchase basis.

15. Place order for machinery (preferably) on hire purchase

15.1 Do not unnecessarily insist of earlier deliveries. Plan out the project in a way that machine/materials/men wait in an idle way, as little as possible for each other. Do advance planning.

16. Apply for materials (imported or controlled)

16.1.1 For imported materials, contact PRO of your regional import licensing authority. Contact your district Industries Officer regarding import applications to be made. For import you need income tax verification, Treasury Challan, SSI registration number.

16.1.2 For indigenous controlled materials your Director is the agency you should contact.

17. Plan buying

    17.1 Plan out the sale of goods, characteristics, specification and properties required in the materials for purchase.

    17.2 Calculate buying large or small quantities of materials and from whom and your stock position

18. Install Machinery

    18.1 Plan layout

    18.2 Get it done through a consultant.

    An entrepreneur should get in touch with the suppliers of machinery who would provide models to suit his/her requirements. Personal visits to the showroom, trade fairs and expositions will be highly useful.

19. Procure Material

    There are certain scarce raw material sources like pig iron, E.C. Grade aluminum, copper, tin plates, paraffin wax etc., are supplied by quota system through the District Industries Center in each district. An entrepreneur may have to approach the Joint Chief Controller of Imports and Exports, through the District Industries Centre and the State Directorate of Industries and Commerce, if the raw material have to be imported. The raw materials are available in the open market except certain critical raw materials.

20. Recruit personnel

    20.1 Consider skill, local availability for labour, training requirements, wages, hiring some now employed by a competitor. A realistic assessment of the manpower requirement should be made.

21. Trial run: A Stitch in time saves nine

22. Decide on pricing policy
    - 22.1 Prices to cover costs and profits, compare with prices of competitors
    - 22.2 Break even analysis for correct pricing
23. Organize marketing
    - 23.1 In consultation with others chart out the relative advantages and disadvantages of using different channels of distribution (Direct selling through whole sellers/retailers/sole selling agents) for your products.
    - 23.2 Have you outlined your promotional policy?
    - 23.3 Advertising techniques.

      All possible efforts to boost up the sales are made by the entrepreneur. By direct promotion techniques such as displays, advertising, publicity, special event sales etc. and by some indirect promotion techniques must be considered based on your product characteristics.
24. Plan out record keeping
    - 25. 1 Book keeping system, merchandise control system, necessity of additional records
    - 25.2 What systems are you going to use to keep a check on costs
    - 25.3 Who is going to keep the records
25. Produce
    - 25.1 Knowledge regarding industrial management and industrial engineering
    - 25.2 Waste reduction methods

      A blue print outlining different operations should be formulated by the entrepreneur. The installed capacity of the unit is calculated, a smooth production should be ensured by well regulated planning.
26. Sell
    - 26.1 Be a good salesman
    - 26.2 Develop public relations

27. Keep up to date
    - 27.1 Read literature, newspapers, publications of IAG and other promotional agencies
    - 27.2 Attend PT courses and other meetings and conferences to increase your circle
28. Plough back profits
    - 28.1 look on investing on general
    - 28.2 Take care of your workers and they will take care of work
    - 28.3 Be a tomorrow's manager and not yesterdays
    - 28.4 Human relations give rise to increased production and mutual understanding.

LEGAL FRAMEWORK

A list of representative list of Acts and Laws applicable to Small Scale Industries as per Ministry of Micro, Small and Medium Enterprises (MSME)

I. Registration related Laws

1. Industrial Development Regulation Act

II. Labour related Laws

1. Apprentices Act, 1961
2. Child Labour (Prohibition & Regulation) Act, 1986
3. Delayed Payment Act
4. The Employees Provident Funds and Misc. Provisions Act, 1952
5. Employees State Insurance Act, 1948
6. The Factories Act, 1948
7. The Industrial Disputes Act
8. The Minimum Wages Act, 1948
9. The Payment of Bonus Act, 1965
10. The Payment of Gratuity Act, 1972
11. The Payment of Wages Act, 1936
12. Workmen's Compensation Act, 1923

13. Environment Protection Act, 1998

III. Enviornment related Laws

1. The Air (Prevention and Control of Pollution) Act, 1981
2. The Air and Water Pollution Act
3. The Environment (Protection) Act, 1986
4. The Water (Prevention and Control of Pollution) Act, 1974

IV. Tax related Laws

1. Income Tax Act
2. Central Excise and Salt Act, 1944
3. Central Sales Tax Act/State Sales Tax Act/VAT
4. Professional Tax
5. Service Tax

V. Local & Other Municipal Laws

1. Town Areas Act
2. Urban Land Development Act
3. Municipality Act/Municipal Corporation Act
4. Notified Areas Land Regulation and Land Use Act

VI. Product& Process

1. Bureau of Indian Standards Act, 1986
2. Drugs and Cosmetics Act, 1940
3. Essential Commodities Act, 1954
4. Packaged Commodities Regulation Order, 1975
5. Pharmacy Act, 1948
6. Standards of Weight & Measures Act, 1976
7. Trade & Mercantile Marks Act, 1958
8. The Insecticides Act, 1968
9. The Prevention of Food Adulteration Act, 1954
10. Indian Bodies Act, 1923
11. Indian Explosive Act, 1884

VII. Other Central Acts

1. Collection of Statistics Act, 1953
2. Indian Electricity Act, 1910

2.7 Summary

Business decisions are made on the basis of business idea, and once the decision of the idea is captured in a very simple clear cut and written format then decision will become easier.

In formulating and strategizing a business idea, we need to articulate and develop business strategy tactics as a written document which will ultimately result is rigorous analysis and greater clarity of thought. This process can be defined as business planning process.

There are many factors which affect the business environment some are controllable and some are uncontrollable. The government policy, changes in consumer tastes, advancement and development of new technology are some of the factors over which a business has limited control.

An entrepreneur is termed as an opportunity seeker in practice. A business opportunity may be defined as finding a possibility of business. Scanning the business environment, evaluation of opportunities and selection of opportunities are the steps involved in identifying a business opportunity.

Setting up of new enterprise is a challenge. It is an economic activity which is undertaken after a systematic business plan is formulated. After considering the technical background a suitable industry and product line is selected, and location for establishing an enterprise is selected after considering the nearness to market, raw materials, transport networks, availability of skilled labor etc.

There are certain laws relating to registration, procurement of raw material, power connection, environment, labour and industries which need to be complied with, which he must be aware of.

2.8 Questions

Self-Assessment Questions (Fill in the Blanks)

1. Business decisions are made on the basis of……………..
2. ……………………………involves extensive planning using data drawn upon a number of assumptions.
3. The Business Planning Process must be………., ………. and………… providing assessment at every stage.
4. A…………………..discovers the financial strength of a strategic plan.
5. There are many factors which affect the business environment some are ……………..and some are …………………
6 ……………………………………..analysis is a part of the environmental scanning and is used by the companies while framing their business strategies.
7. An entrepreneur is termed as an ………………………..in practice.
8. The entrepreneur can arrive at the final product by doing the………………..
9. For a business opportunity the level of production is decided by the availability of …………………….
10. Starting and doing a business involves various types of risks which are …………….., ……………., ……………. and …………………..

Terminal Questions

(2 marks questions)

1. What do you mean by Business Planning Process?
2. Mention the steps involved in Business Planning Process.
3. Who are the participants in Business Planning Process?
4. What do you mean by environmental analysis?

5. What is scenario planning?
6. What is a Business Opportunity?
7. Explain two problems involved in identifying a Business Opportunity
8. Define a Business Idea.
9. What are the dynamics of Business Opportunity Identification?
10. Mention five laws applicable to Small Scale Industries.

(5 marks questions)

1. Give an overview of Business Planning Process.
2. What do you mean by search and scanning the environment? Explain.
3. What do you mean by identifying a Business Opportunity? What are its objectives?
4. What are the problems faced in identifying a business opportunity?
5. What is a business idea? What are the dynamics involved in Business Opportunity Identification?

(14 marks questions)

1. What do you mean by Business Planning Process? Who are the participants involved in business planning process? Give an overview of business planning process.
2. What do you mean by environmental analysis? What is search and scanning the environment?
3. What do you mean by identifying a business opportunity? What are the steps involved in it?
4. What are the objectives of identifying business opportunity? What are the problems faced in identifying a business opportunity?
5. What are the basic Government procedures to be complied with while setting up a small scale industry?

2.9 Answers

Answers for Self-Assessment Questions

1. Business Idea
2. Business Planning Process
3. Compliant, pliable and unending
4. Business model
5. Controllable, uncontrollable.
6. PEST (Political, Economic, Social and Technological)
7. Opportunity seeker
8. SWOT Analysis
9. Raw material.
10. Technical, economic, social and environmental.

Answers to Terminal Questions

(2 marks questions)

1. Refer to section 2.2
2. Refer to section 2.2
3. Refer to section 2.2
4. Refer to section 2.3
5. Refer to section 2.3
6. Refer to section 2.4
7. Refer to section 2.4
8. Refer to section 2.5
9. Refer to section 2.5
10. Refer to section 2.6

(5 marks questions)

1. Refer to section 2.2
2. Refer to section 2.3
3. Refer to section 2.4
4. Refer to section 2.4
5. Refer to section 2.5

(14 marks questions)

1. Refer to section 2.2
2. Refer to section 2.3
3. Refer to section 2.4
4. Refer to section 2.4
5. Refer to section 2.6

Module -3

Legal Forms of business-Single ownership firms
Partnership firms- Joint Stock Company
Cooperative Enterprise
Public sector
Enterprises- expansion and diversification strategies
Mergers and acquisitions
Franchising.
Intellectual Property- Patents- Copyrights- Trademarks, Licensing
Sources of Capital
Personal Fund
Bank Loan, Venture Capital Funding
Angel Investors-Crowd funding

Business Models

Legal Forms of business

The legal form a firm chooses to operate under is an important decision with implications for how a firm structures its resources and assets. Several legal forms of business are available to executives. Each involves a different approach to dealing with profits and losses

Sole proprietorship / Single owner business

There are variosu forms of business. A **sole proprietorship** is a firm that is owned by one person. From a legal perspective, the firm and its owner are considered one and the same. On the plus side, this means that all profits are the property of the owner (after taxes are paid, of course). On the minus side, however, the owner is personally responsible for the firm's losses and debts. This presents a tremendous risk. If a sole proprietor is on the losing end of a significant lawsuit, for example, the owner could find his personal assets forfeited. Most sole proprietorships are small and many have no employees. In most towns, for example, there are a number of self-employed repair people, plumbers, and electricians who work alone on home repair jobs. Also, many sole proprietors run their businesses from their homes to avoid expenses associated with operating an office.

Features of Sole Proprietorship

The main features of a Sole Proprietorship are as follows:

Legal Formalities – No legal formalities are required to either commence or to shut down a sole proprietorship. But the owner must have a special license or certificate to run the business for specific occupations. For example, a sole proprietor planning to start a pharmacy must have a pharmacist's degree.

Unlimited Liability – The sole proprietor is liable for the success or failure of their financial transactions. In case the proprietor takes a loan and fails to repay it, the creditors can attach the business owner's property to recover the loans.

Risk and reward – A sole proprietor has complete ownership over the profits or losses from their firm's operations.

Control – The rights and responsibilities of a sole proprietorship lies solely with its owner. No other person can interfere in the business activities of a sole proprietor without prior permission.

Separate Entities – The owner and their business are separate entities in most forms of business organisations except sole proprietors. The entity has no identity without the proprietor since that person carries out the day-to-day activities of the business.

Continuity of business – The existence of a business is related to its owner. Events like death, insolvency, imprisonment, terminal illness, etc., of the sole proprietor can adversely affect the business or force it to shut down permanently. If there is a legal heir or beneficiary to the sole proprietor, that person can run the entity if the proprietor cannot continue.

Advantages and disadvantages of Sole Proprietorship

There are several benefits as well as limitations of running a sole proprietorship. We will discuss some of those points below:

Advantages –

Swift decisions – A sole proprietor has complete responsibility in terms of making business decisions. It results in faster decision-making for the business as there is no need to consult multiple parties for every minor issue.

Confidentiality – A sole proprietor can keep all business-related information to themselves as the business's only decision-maker. The law does not bind them to make the accounts of a sole proprietorship public.

Profit-sharing – A sole proprietor has complete ownership of profits arising from business operations. They are not obligated to share profits with anyone else.

Fulfilment – Since a sole proprietor is responsible for both risks and rewards of their business, even a minor success can give a greater feeling of pride and satisfaction than other business forms.

Disadvantages –

Lack of Resources – It is challenging to raise vast amounts of capital in a sole proprietorship compared to a partnership or company. This form of business runs mainly on personal savings and borrowings made by its owner. Lack of adequate finances can become an obstacle in growing the business.

Dependence on owner – The owner and their business are a singular entity in a sole proprietorship. While this has several advantages, the continuity of this form of business depends solely on the owner's well being. In case of death, insolvency, imprisonment, etc., it can shut down if there is no successor or heir to continue the business.

Unlimited Liability – If the proprietor cannot pay debts arising out of business from its assets, his/her personal property is also at stake. This results in sole traders taking zero or very minimal risks to ensure the survival of the business.

Management – The proprietor has to perform most or all the activities related to the business like purchase, client relationships, sales, marketing, accounting, etc. They may employ others to help in business operations, but limited finances may prevent the owner from getting full-time staff and give them attractive remuneration. As such, the proprietor may have to carry out all activities without much assistance from others.

Partnership firm

In a **partnership,** two or more partners share ownership of a firm. A partnership is similar to a sole proprietorship in that the partners are the only beneficiaries of the firm's profits, but they are also responsible for any losses and debts. Partnerships can be especially attractive if each person's expertise complements the others. For example, an accountant who specializes in preparing individual tax returns and another who has mastered business taxes might choose to join forces to offer customers a more complete set of tax services than either could offer alone.

From a practical standpoint, a partnership allows a person to take time off without closing down the business temporarily. Sander & Lawrence is a partnership of two home builders in Tallahassee, Florida. When Lawrence suffered a serious injury a few years ago, Sander was able to take over supervising his projects and see them through to completion. Had Lawrence been a sole proprietor, his customers would have suffered greatly. However, a person who chooses to be part of a partnership rather than operating alone as a sole proprietor also takes on some risk; your partner could make bad decisions that end up costing you a lot of money. Thus developing trust and confidence in one's partner is very important.

A partnership is a kind of business where a formal agreement between two or more people is made who agree to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates.

In India, all the aspects and functions of the partnership are administered under 'The Indian Partnership Act 1932'. This specific law explains that partnership is an association between two or more individuals or parties who have accepted to share the profits generated from the business under the supervision of all the members or behalf of other members.

Advantages of Partnership

The advantages of Partnership are as follows:

1. Easy to Form and Close: The partnership business, like the sole proprietorship, can be formed immediately and without any legal stipulations. It is not essential to register the company. A simple agreement, either oral or written is all that is required to form a partnership company. A partnership is a contractual arrangement between two or more people to manage a business. As a result, it is quite simple to form. The legal requirements for formation are limited. on the other hand, the registration of a partnership is desirable, but not required. It's the same in the case of closure, as it is also an easy task.

2. Better Decision Making: The firm is owned by the partners. Each of them has an equal right to participate in corporate management. In the event of a disagreement, they can sit down together to work out the issues. Because all partners are involved in decision-making, there is less room for reckless and hasty decisions. Because there are several owners in a partnership, all partners are involved in decision-making. Typically, partners from various specialist fields are brought together to complement one another. For example, if there are three partners, one may be a specialist in production, another in finance, and the third one in marketing.

3. Availability of Funds: In comparison to a sole proprietorship, it could be possible to pool more resources when two or more partners work together to establish a partnership firm. The partners may invest more money, more time, and more effort into the company.
As we know, a sole proprietorship experiences financial constraints due to its restricted resources. Due to this fact, the partnership firm now has more than one source of funding to solve this issue effectively. Additionally, it also boosts the company's capacity to borrow money because the risk of loss is shared among numerous partners rather than just one.

Banking institutions also see less danger in granting credit to partnerships than to sole proprietorships.

4. Risk Sharing: Each partner contributes to the firm's losses in accordance with their agreed-upon profit-sharing percentages. As a result, the loss share for each partner will be lower than it would be for a proprietorship. The chance of losing money or defaulting can be greatly reduced because all profits and losses are shared among the partners. All of the partners in a partnership firm share the business risks. For example, if there are three partners and the company incurs a loss of Rs.12,000 over a specific time period, all partners may split it, with each partner bearing just a Rs. 4,000 burden.

5. Secrecy: Since businesses are not compelled to publish their financial statements or submit any reports to the government, secrecy regarding their activities can be easily maintained. This allows it to keep its operations and policies secret.

Disadvantages of Partnership

The disadvantages of Partnership are as follows:

1. Unlimited Liability: The partners are completely responsible for the firm's debt, both jointly and individually. They can thus divide the liability among themselves or demand that each individual pay for all of the obligations, even any covered by personal property. The parties' liability in a partnership business is unlimited. Similar to a sole proprietorship, if a partnership is unable to pay its debts, the personal assets of the partners may be in danger. Partners are jointly and separately accountable, and their liability is unlimited. For those partners who have more personal money, it might prove to be a significant disadvantage. If the other partners are unable to pay the loan, they will be responsible for paying it all back.

2. Limited Resources: The number of partners is restricted, and as a result, the capital they provide is also limited. There are restrictions on adding partners, so there won't ever be enough funds to support a big firm. Partnership businesses thus have difficulties with business expansion.

3. Possibility of Conflicts between Partners: Every partner in a partnership business has an equal right to take part in management. Additionally, each partner has the right to present any matter to management at any moment with their thoughts and opinions. Due to this, there is sometimes a possibility of conflicts and disagreements among individuals, which may frequently result in the closure of the business.

4. Lack of Continuity: The partnership ends when one partner passes away or leaves. So, there is uncertainty in the continuity of the business. A partnership is an unstable type of organisation since it can collapse due to the death, retirement, or insolvency of any partner. The surviving partners, though, may reach new agreements and carry on the business.

5. Lack of Public Confidence: A partnership firm is an entirely private type of organisation. Government neither controls nor regulates it. Public trust in such types of businesses is generally low, as they are not required to publish their financial reports or make other related information public. As a result, it is challenging for the public to determine the genuine financial situation of a partnership business, which lowers public trust in partnerships.

Features of partnership Business

Following are the few features of a partnership:

Agreement between Partners: It is an association of two or more individuals, and a partnership arises from an agreement or a contract. The agreement (accord) becomes the basis of the association between the partners. Such an agreement is in the written form. An oral agreement is evenhandedly legitimate. In order to avoid controversies, it is always good, if the partners have a copy of the written agreement.

2. Two or More Persons: In order to manifest a partnership, there should be at least two (2) persons possessing a common goal. To put it in other words, the minimal number of partners in an enterprise can be two (2). However, there is a constraint on their maximum number of people.

3. Sharing of Profit: Another significant component of the partnership is, the accord between partners has to share gains and losses of a trading concern. However, the definition held in the Partnership Act elucidates – partnership as an association between people who have consented to share the gains of a business, the sharing of loss is implicit. Hence, sharing of gains and losses is vital.

4.Business Motive: It is important for a firm to carry some kind of business and should have a profit gaining motive.

5. Mutual Business: The partners are the owners as well as the agent of their firm. Any act performed by one partner can affect other partners and the firm. It can be concluded that this point acts as a test of partnership for all the partners.

6. **Unlimited Liability:** Every partner in a partnership has unlimited liability

Joint stock company

A **joint-stock company** is a business entity in which shares of the company's stock can be bought and sold by shareholders. Each shareholder owns company stock in proportion, evidenced by their shares (certificates of ownership). Shareholders are able to transfer their shares to others without any effects to the continued existence of the company.

In modern-day corporate law, the existence of a joint-stock company is often synonymous with incorporation (possession of legal personality separate from shareholders) and limited liability (shareholders are liable for the company's debts only to the value of the money they have invested in the company). Therefore, joint-stock companies are commonly known as corporations or limited companies.

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as "*a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company*." Studying the features of a joint stock company will clarify its structure.

Features of a Joint Stock Company

1] Artificial Legal Person

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2] Separate Legal Entity

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] Incorporation

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] Perpetual Succession

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5] Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7] Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

One of the biggest drawing factors of a joint stock company is the limited liability of its members. their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies

The shares of a company are transferable. Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.

Perpetual succession is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.

A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the best talent and professionals.

Disadvantages of a Joint Stock Company

One disadvantage of a joint stock company is the complex and lengthy procedure for its formation. This can take up to several weeks and is a costly affair as well.

According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete lack of secrecy for the company.

And even during its day to day functioning a company has to follow a numerous number of laws, regulations, notifications, etc. It not only takes up time but also reduces the freedom of a company

A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees. the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a conflict of interest.

Cooperative societies

Cooperatives are businesses owned by “member-owners”. Co-ops are democratically controlled by their member-owners, and unlike a traditional business each member gets a voice in how the business is run. Services or goods provided by the co-op benefit and serve the member owners. Contrary to popular belief coops are not non-profits, and do aim earn profits. Earnings generated by the cooperative benefit the member-owners.

The word “cooperative” means to work together and cooperate with each other, similarly, in a cooperative society, a group of people forms a voluntary association to benefit the members and work for the betterment of society, especially for the weaker sections. According to “The Cooperative Societies Act 1912”, – Cooperative organization is “a society which has its objective for the promotion of economic interests of its members in accordance with cooperative principles.

Advantages of Cooperative Society

1. Easy to Form: There are no big formalities for the formation of a Cooperative Society. Moreover, it is voluntary, so there is no compulsion to any organization person or business associate to form, and join any cooperative society. A minimum of ten members can start a cooperative society, and there’s no limit to the maximum number of members in a cooperative society.

2. Limited Liability: The risk factor of members is limited to the extent of capital brought by them in the cooperative society. In case of insolvency or dissolution, the personal assets of the members are not liable for repayment of debts, which makes the members of a cooperative society feel safe and protects their economic interests.

3. Stability: As the cooperative society holds the position of a separate legal entity, it is not affected by the death, retirement, or admission of any member. A cooperative society is not much affected by its members as they have to work on the basis of the rules and regulations provided in the act. Even though members have a voting right in choosing the managing committee member, it does not have much effect on the working of the business.

4. Equality in Voting Right: Each member in a cooperative society has one vote to elect the member of the managing committee, as it follows the principle of ‘ONE MAN ONE VOTE’. Every member has an equal voting right, no matter whether they have contributed less or huge capital to the business. Having a say in the matters of the business also puts a great emphasis on them. Besides, a cooperative society is a democratic association, which means that it treats everyone the same irrespective of their caste, gender, or creed.

5. Support from the Government: As a cooperative society works majorly for the benefit of poor and weaker sections of the society, it gets great support from the government in the form of low taxes, subsidies, loans with low rates of interest, etc.

Disadvantages of Cooperative Society

1. Conflict and Disputes: As the members of a cooperative society belong to different cultural and social aspects their thinking varies, which leads to a greater possibility of conflicts. Members try to make personal gains and keep aside the service motive, which hampers the working of a cooperative society. In other words, the difference in personal motive and social motive of the members of the society results in conflicts among them affecting the overall business.

2. Lack of Privacy: As there are different members in a cooperative society, it is difficult to maintain a level of secrecy. Every decision is taken in a meeting with an open discussion, which makes it difficult to maintain confidentiality about the operations of the business. Besides, a cooperative society has an obligation to disclose the decisions of the meeting under the Societies Act (7).

3. Lack of Efficiency: It is difficult for the cooperative society to earn and make a profit on a large scale because it works for welfare motives. The amount of profit earned by the society is not sufficient to appoint skilled and experienced members for proper management. Even if any of the members agree to give honorary services to the cooperative societies, they do not have sufficient means to handle it well.

4. Government Control: When a cooperative society grows and develops into a big unit, then the government would interfere in its operations. The cooperative society has to comply with rules and regulations related to auditing of accounts, profit, etc., which affects the freedom of operations.

5. Limited Resources: Each member brings limited capital and expects a higher return, which is difficult for a cooperative society to provide at an early stage. Moreover, it is formed for the welfare of society and its members; therefore, the profit motive is ignored to some extent.

Public sector enterprises

Public Sector Enterprises are an essential part of the Indian economy. These consist of public services and enterprises that benefit all India's citizens. The public sector enterprises are businesses owned and controlled by the government.

The government either wholly or partially owns the enterprises. These enterprises help the government participate in the economic activities of the country. The Central or the state governments can manage public Sector Undertakings. When managed by the state government, it is known as the Central Public Sector undertaking. However, when owned and operated by a state, it is known as the state-level public sector undertakings.

Advantages of a public corporation

Affordability. The company provides essential public services to citizens at an affordable price. The company aims to serve the public, not solely for the sake of profit.

Operation continuity. Public corporations continue to operate with government support even if they are at a loss. The government will maintain it because it provides considerable social benefits to the public.

Government support. The company is not too bothered about raising funds because it has strong funding support from the government. Likewise, the company provides the privilege to operate, so it does not face competitive pressures.

Disadvantages of a public corporation

Inefficiency. Not facing competitive pressures, there is no reason for the company to operate more efficiently. In addition, companies also do not strictly pursue profit targets, making them less concerned about efficiency. That contrasts with private companies, where they have to operate more efficiently to maximize profits.

Intervention. The government has a significant influence on business decisions. And political reasons also complicate operations and reduce independence in conducting business. For example, some politicians may use them to pursue popularity in a particular area.

Waste of money. Because the pressure to be more efficient is low, the company is likely to consume more costs. As a result, it could cost a large government budget to subsidize them. In addition, corrupt practices within the company also increase costs.

Classification of Public Sector Enterprises

In the PSU's there are three main sectors, which are:

Departmental Undertakings: These are organised, financed and controlled by the government. The department is under the control of a minister from the Parliament. Some examples of departmental undertaking are the Indian Railways and Indian Post.

Non-Departmental Undertakings: These are government companies and subsidiaries of the government. Additionally, these refer to statutory companies set up under special enactments of the Parliament and State Legislature. A few examples of non-departmental undertakings are Oil and Gas Corporations and Road Transport Corporations.

Financial Institutions: These are enterprises like commercial banks, investment banks and brokerage firms. Examples of financial institutions are the State Bank of India and Unit Trust of India.

Objectives of Public Sector Enterprises

The main objective of the public sector enterprise is to help the benefit of the citizens. However, besides that, there are other objectives of a public sector enterprise, like:

It helps in creating an industrial base in the country.

PSU's help in generating a better quality of employment.

They develop the basic foundation in the country.

Public Sector Enterprises helps in providing resources to the government.

They help reduce inequalities and accelerate the country's economic growth and development.

Role of Public Sector Enterprises

The public sector enterprises play a significant role in the upliftment of the country's economic conditions. Here are some of how the public sector enterprises play a role in the economy:

Capital Formation: The Public Sector has been one of the biggest reasons for the generation of capital in the Indian economy. A large amount of the money generated in the economy is because of the public sector.

Employment Opportunities: The Public Sector has brought about a significant change in the employment sector of the economy. It provides the citizens with many employment opportunities in various sectors of the economy. These opportunities help in the upliftment of the citizens and the economy.

Development of Regions: Public Sector Undertakings majorly consist of factories and plants that can boost the different regions' socio-economic development. The inhabitants of the parts benefit from the establishment of these.

PSUs. They benefit in ways like facilities like electricity, water supply and township.

Problems in The Public Sector Enterprises

While the PSU aims to help in the development of the country. It is not a sector that doesn't face problems. Hence, here are the issues which the Public Sector Enterprises face:

Inappropriate and Wrong Investment decisions

Incorrect Pricing Policies

Excessive Overhead Costs

Obsolete Technology

Overstaffing

Trade Unions

Lack of Accountability

Reforms in the Public Sector Enterprises

The Indian government has many reforms regarding the Public Sector. These reforms help develop the public sector as they bring changes in the industry. Here are some of the reforms of the Public Sector:

New Industrial Policy, 1991

Voluntary Retirement Scheme, 1988

Administered Price Mechanism

The Policy of Navratnas: PSUs are the best in the economy: they were given autonomy to perform better and increase efficiency

The policy of Miniratnas: These are PSUs making profits continuously for three years

The policy of Maharatnas: These are PSU's which should have been a Navratna, listed on the stock exchange in India, and should have a global presence

Diversification strategy

Diversification strategy is a method of expansion or growth followed by businesses. It involves launching a new product or product line, usually in a new market. It helps businesses to identify new opportunities, boost profits, increase sales revenue and expand market share. The strategy also gives them leverage over their competitors. The corporate diversification strategy or product diversification is a prominent approach followed by large-scale businesses. However, diversifying products is usually risky and requires extensive market research and analysis. There are three main types of product diversification – concentric, horizontal, and conglomerate, based on the scope and approach undertaken.

Types

The three main diversification strategies are based on the approach undertaken – concentric, horizontal, and conglomerate diversification.

Concentric diversification

This method introduces closely related products to the existing market. That is, similar products are added to the current product line. Such a type of diversification brings the focus of a business to a center point, thus concentric. For example, an automobile company adds a solar-powered car to its eco-friendly auto line.

Horizontal diversification

Diversifying a product horizontally means introducing new but unrelated offerings to the company's product mix. Horizontal diversification can also be adapted to launch complementary goods. For instance, a clothing company launching its footwear line.

Conglomerate diversification

A business focuses on a completely different product line in this strategy. Hence, this can be extremely risky. The company broadens its scope and targets a different market. The Disney diversification strategy is a suitable example here.

Advantages of Diversification

1. Helps to mitigate risks within the core business

As mentioned earlier, one of the main advantages of diversification is that it helps to mitigate risks within the core business. This is because by expanding into other markets and industries, companies are less likely to be impacted negatively by problems within their core business.

For example, if there was an economic recession in the country where a company's main operations were based, then this would likely have a negative impact on their sales and profits.

However, if that company had also expanded into other countries where the economy was not impacted by the recession, then this would help to offset any losses made in their core market.

2**. Increases opportunities for growth**

Another advantage of diversification is that it increases opportunities for growth. This is because when a company expands into new markets and industries, they are effectively opening up new channels through which they can generate sales and profits.

This can help a company to reach its long-term growth objectives quicker than if it had only focused on its core business.

3. Makes financial sense

From a financial perspective, diversification can also make sense for companies as it can help them to use their resources more efficiently.

For example, if a company has spare capacity in its factories or office space, then rather than leaving this unused, they could put it to good use by expanding into new markets and using this spare capacity to produce products or services for these new markets.

This would help the company to generate additional revenue without incurring any significant extra costs.

4. Reduces dependence on one market or customer

Another advantage of diversification is that it reduces dependence on one market or customer group. This is often seen as being beneficial as it makes a company less vulnerable should there be any problems with its main market or customer group (e.g. if they experience financial difficulties and are unable to buy from the company).

By having a more diversified customer base, companies are able to reduce this risk and protect themselves against such problems occurring in the future.

5**. Provides tax benefits**

Finally, another potential advantage of diversification is that it can provide tax benefits for companies. This is because when companies expand into new markets, they may be able to take advantage of different tax regimes which could result in them paying less tax overall.

This could provide a significant boost to the company's profits and help to improve its financial position over time.

Disadvantages of Diversification

1. Can be expensive

One of the main disadvantages of diversification is that it can be expensive for companies to pursue this strategy effectively. This is because expanding into new markets often requires significant investment in areas such as marketing and product development in order to make sure that products/services are successfully launched in these new markets.

Furthermore, acquiring businesses in other industries can also be costly (e.g. if a company wants to buy an existing business rather than setting up their own operations from scratch).

These costs can often outweigh any potential benefits which might be generated from pursuing this strategy and so it's important for companies to carefully consider whether or not diversification makes financial sense for them before proceeding with this option.

2 .**There's no guarantee of success**

Another key disadvantage of diversification is that there's no guarantee of success regardless of how much effort or money is invested by a company. This is because even with careful planning and execution, there's always a risk that things could go wrong (e.g. The new product might not be successful in the market).

Also, even if everything goes according to plan, there's no guarantee that the overall strategy will be successful as results could take many years to materialize.

For example, a company might not see any significant increase in sales/profits until several years after launching its operations in a new market/industry. This delay could cause problems for companies who need quick results in order to meet their financial obligations (Paying back loans).

3 . Can lead to managerial stretch

Another common problem associated with diversification is managerial stretch. This occurs when managers are required to oversee too many different businesses at once and as a result,t hey are unable to spread themselves too thinly and end up doing a poor job running each individual operation.

This often leads to businesses underperforming and ultimately, can jeopardize the future success of the entire organization.

Reasons for Diversification

1) Increasing Profits

The most popular reason for diversification is to increase profits. By entering into new markets and industries, firms can expand their customer base and therefore increase revenue.

Additionally, by selling new products to current customers, businesses can cross-sell and upsell; which again leads to an increase in revenue. It has been proven that businesses who have diversified have increased their overall profitability.

2) Reducing Risk

Another reason businesses choose to diversify is to spread risk. By having interests in multiple markets and industries, firms are less likely to be negatively affected should one market or industry experience tough times.

This strategy allows companies to buffer against any potential risks associated with operating in just one market. Additionally, should one area of the business falter, the other areas can often still prosper; limiting the negative effects on the firm as a whole.

3) Competitive Edge

Another reason for diversification is to achieve a competitive edge over competitors. When done correctly, diversification can allow firms to tap into new markets and industries first; giving them the first-mover advantage.

This can often lead to increased market share and greater profits as customers flock to the company because it offers something unique that others don't.

Additionally, by having a presence in multiple markets, companies can use one area of the business as a springboard to enter another, using the knowledge, they have already acquired to give them an advantage over those who haven't diversified

Expansion strategy

An expansion strategy is the business's approach to attaining this growth, such as expanding a customer base, offering more products, improving profit margins, growing brand presence, or obtaining more online or brick-and-mortar commerce locations.

A business or a company follows the expansion strategy when it wants to achieve a certain high growth level compared to the previous performance. When a **company** plans to achieve a certain growth level, it employs methods like increasing its business operations to target a more significant customer market and technological tools.

Businesses and companies use different methods and techniques to stabilize their earnings. It's also one of their goals is to grow their business and become more prosperous. They call it expansion. Today, we'll discuss business expansion strategy and its different types in detail with examples.

What is an Expansion Strategy?

A business or a company follows the expansion strategy when it wants to achieve a certain high growth level compared to the previous performance. When a **company** plans to achieve a certain growth level, it employs methods like increasing its business operations to target a more significant customer market and technological tools.

The goal and reason behind the business expansion strategies may vary from business to business. It could be increasing the social benefits, increasing the market share, achieving economies of scale, prestige, and higher profit. Only those businesses follow the expansion strategy whose managers and supervisors are ambitious. They're willing to take risks and grow.

Types of Strategies with Examples

Here are the five types of expansion strategies that businesses and companies use, and they're as follows;

Expansion through Concentration

Expansion through **concentration is the grand level strategy**, and it requires an investment of a plethora of capital and resources in a specific product line. It's to satisfy the needs of the target market with the specific verified technology.

In other words, when a business or a company invests its capital and resources into one or more **product lines** and businesses, the purpose is to satisfy the needs and wishes of customers. However, businesses and companies employ concentration strategy by any of the following methods;

Product Development. Here you launch some new products in the existing market to increase the product line of your business.

Market Development. You expand your market and attract more customers by using the existing and current product line.

Market Penetration Strategy. The focus of your business is on the current market by using the existing product line.

Businesses and companies utilize concentration strategy because they're already familiar with the field and product niche. They don't have to make any structural changes in the company. It is because they already know their business.

The reason the concentration strategy is risky is due to the over-dependence on one industry. If the country's economy falls, it would drastically impact your business. Some businesses have made a plethora of investments in one sector. Any latest technological development would make their product obsolete.

Expansion through Diversification

Through diversification, expansion is when a company changes its business type by either entering into the new market or launching the new product. Businesses and companies follow the diversification strategy during the economic recession period

The purpose of a business diversification strategy is to recover the company's losses by making a profit from the other business. The economy and market have affected its profit and earnings. The diversification strategy has two main types;

Conglomerate Diversification. When a company expands into other businesses regardless of their relevancy or irrelevancy to its core niche, we call it conglomerate diversification. In other words, conglomerate diversification is when a company acquires other business or product/service (relevant or irrelevant) to increase its product/service portfolio.

Concentric Diversification. Concentric diversification is when a company acquires a product/service closely relevant to its core product/service range. For instance, a shoe production factory acquires a leather company to increase its sales and customer market share.

Example

Google has diversified its business into various businesses like Android, Chrome, Google Map, Google Earth, Adsense, Gmail, YouTube, etc.

Expansion through Integration

Through integration, expansion is when you combine/join various current operations of the company without changing the target customer market. Businesses and companies use a value chain system for integration.

The value chain is the process of related activities that a company performs, from the raw material's procurement to the finished good. The company increases or decreases the number of steps in the value chain system and develops the product to satisfy customers' needs.

The expansion through integration has two main types;

Horizontal Integration. Horizontal integration is when a company overpowers the competitor by offering the same products/services and marketing strategy. For instance, a pharmaceutical company overcomes the competitor brand by providing similar products.

Forward Integration. Forward integration when a company opens up its brand retail stores and directly approaches the final customers and offers them the product/service. For instance, the outlets of Apple, Samsung, Huawei, etc.

Backward Integration. Backward integration is when a company goes back to produce its raw material for its finished products/services. For instance, a shoe factory also makes the leather, raw material, for its final products.

Expansion through Cooperation

When a company agrees with the competitor brand to perform business operations together and compete with each other simultaneously. The expansion through cooperation has the following types, and they're as follows;

Strategic Alliance. The strategic alliance is when two or more businesses integrate to execute their business operations coactively and work independently to achieve their individual goal. The purpose of the strategic partnership is to exploit any of the companies' human resources, technology, and expertise.

Joint Venture. A joint venture is when two or more companies plan to execute their business operations jointly. The purpose of the joint venture is to utilize the strengths of the two companies. Businesses and companies go on a joint venture to achieve a particular task or goal.

Takeover. A takeover is when one company buys the other company and becomes responsible for the operations of both.

Merger. A merger is when two or more companies integrate where one company buys the other's assets for cash. Both companies get dissolved and form the new company. The acquisition is the buyer company, and the merger is the acquired-company.

Expansion through Internationalization

Expansion through internationalization is when a company goes beyond the country's national border and market. The reason for internationalization is when the company has utilized all the opportunities in the domestic market. Now the brand expands into the global market to exploit opportunities in the international market.

Businesses and companies perform the following strategies for expansion through internationalization;

Global Strategy. Global strategy is when a company follows the low-cost approach and offers its product/service to a particular foreign market where lower-cost is available. The company provides the same low cost manufactured product to the rest of the world.

Multi-domestic Strategy. A multi-domestic strategy is when a company provides a customized product/service relevant to the foreign market conditions. It's a costly strategy because of its research and development cost, market, and manufacturing costs by following the local markets' needs in different countries.

International Strategy. International strategy is when a company offers its product/service to those markets where they don't have access to it. It requires strict controls over the operations in the other countries and offering them the same standard product.

Transnational Strategy. A transnational strategy when a company follows the global system and multi-domestic process at the same time. Here the company offers customized and low-cost products/services to the local market by following their environmental conditions.

In other words, the company provides the standard product/service aligned with the local norms of the country.

Mergers & Acquisition

The terms "mergers" and "acquisitions" are often used interchangeably, but they differ in meaning. In an acquisition, one company purchases another outright. A merger is the combination of two firms, which subsequently form a new legal entity under the banner of one corporate name.

Objectives of M&A

The objectives of mergers and acquisitions include expanding the economy, increasing market capitalization, valuations, and demand and supply. Everything from management to philosophy to company policies falls under these objectives. Acquirers may actively seek out undervalued targets, as they may have more accurate expectations of the future value of the target firm, resulting in profitable undervalued target purchases.

The main objectives of mergers and acquisitions include **revenue maximization**. A loss-making company that merges with a profit-making company can achieve growth, while the acquiring company gains access to the customer base, products, and services used by the loss-making company. Mergers and acquisitions **provide security**, as the dual efforts of both companies result in backup or security for one another. This adds to the security of the company to deal with the market at large.

Mergers and acquisitions also result in **customer recognition**. The loss-making company's reputation is protected, and its customer base moves to the newly formed merged company, ultimately resulting in customer recognition. Additionally, mergers and acquisitions provide opportunities for **diversification** and **tax benefits**. Tax benefits are enjoyed when a loss-making company is merged or acquired by a profit-making company, reducing the tax burden.

Mergers and acquisitions also help to **eliminate competition** in the market, which can prove beneficial for the economic growth of the country as a whole. This allows companies to keep their prices high and supply a variety of goods and services.

Finally, the combination of two companies creates a synergy effect, resulting in operational and management synergies that establish an efficient new working company

Types of Mergers

Horizontal merger

A merger between companies that are in direct competition with each other in terms of product lines and markets

Vertical merger

A merger between companies that are along the same supply chain (e.g., a retail company in the auto parts industry merges with a company that supplies raw materials for auto parts.)

Market-extension merger

A merger between companies in different markets that sell similar products or services

Product-extension merger

A merger between companies in the same markets that sell different but related products or services

Conglomerate merger

A merger between companies in unrelated business activities (e.g., a clothing company buys a software company)

Types of Acquisition
Horizontal Acquisition

A horizontal acquisition occurs when one company acquires another company that operates in the same business. In some cases, these acquisitions involve competitors that serve the same customer base. However, a horizontal acquisition can also involve non-competitors. The benefits of a horizontal acquisition include potential increases in a company's customer base and market share, as well as opportunities to expand into new markets.

Vertical Acquisition

A vertical acquisition is when one company acquires another company that operates at a different position in the supply chain. The acquirer may be higher up in the chain, or it may be lower on the chain. Vertical acquisitions can introduce new income streams, lower production costs, and streamline operations.

Conglomerate Acquisition

A conglomerate acquisition occurs when the acquiring and target companies operate in unrelated industries or engage in unrelated activities (such as when a widget manufacturer is acquired by a non-related company). The main reason for a conglomerate acquisition is diversification. If one product or service is struggling, there are hopefully others that are performing well, providing stability for the company.

Congeneric Acquisition

A congeneric acquisition is when the acquiring company and the acquired company offer different products or services but sell to the same customers. This type of acquisition helps a company increase market share and expand its product lines.

Difference between Acquisitions and Mergers:

	ACQUISITIONS	**MERGERS**
Meaning	An acquisition is a cycle wherein one organisation assumes or takes over the	A merger is a cycle wherein more than one organisation's approach functions as one.

	responsibility for another organisation.	
Issuance of Shares	No new shares are issued in case of acquisitions.	New shares are issued in case of mergers.
Mutual Consent and Decisions	The choice of acquisitions is probably not shared, or of mutual consent in nature; in the event that the acquiring organisation assumes control over one more venture without the acquired company's assent, it is named an unfriendly takeover or hostile takeover.	A merged business entity is settled upon by common assent and mutual consent of the involved organisations. Rather it is a planned and friendly one.
Company's Name	The obtained or acquired organisation, for the most part, works under the name of the parent organisation. Sometimes, nonetheless, the previous company can hold its original name, assuming the parent organisation permits it.	The merged business entity works under another name or a new name.
Stature, by Comparison	The acquiring organisation is independently stronger in terms of financial capability than the acquired business.	The merged companies are of similar stature, operations, size, and scale of business.
Power or Authority over the Other	The acquired company has no say in terms of power or authority by the acquiring company.	There is harmony when it comes to merged companies.
Examples	Tata Motors acquisition of Jaguar Land Rover	Merging of Glaxo Wellcome and SmithKline Beecham to GlaxoSmithKline

Franchising

Franchising is an arrangement where franchisor (one party) grants or licenses some rights and authorities to franchisee (another party). Franchising is a well-known marketing strategy for business expansion.

A contractual agreement takes place between Franchisor and Franchisee. Franchisor authorizes franchisee to sell their products, goods, services and give rights to use their trademark and brand name. And these franchisee acts like a dealer.

In return, the franchisee pays a one-time fee or commission to franchisor and some share of revenue. Some advantages to franchisees are they do not have to spend money on training employees, they get to learn about business techniques.

Examples of Franchising in India

McDonald's
Dominos
KFC
Pizza Hut
Subway

Characteristics

Some of the main features of franchising in business are as follows:

Two Parties: This method involves the franchisor and the franchisee. Both of them sign a written agreement.

Exclusive Right: The franchisor grants the franchisee the right to use their brand name, trademarks, and techniques under specific guidelines.

Assistance: The franchisor supports the franchisee in critical areas like marketing, technology, recordkeeping, staff training, etc.

Policies: Franchisees must operate the business according to the policies designed by the franchisor. The former gives an undertaking not to engage in any competing business. Moreover, per the terms of the agreement between the two parties, the franchisee must not disclose any confidential information regarding the business.

Limited Period: Franchisees can use the franchisor's brand name, trademarks, and techniques for a period mentioned in the agreement, for example, seven years. Upon the expiry of the contract, both parties may agree to renew the contract.

Payments: The franchisee pays an initial fee to the franchisor to acquire the license. In addition, the former pays royalty fees to the latter.

Types

The following are the most common types of franchising relationships:

Product Franchises

In the case of these agreements, the franchisee has the right to use the franchisor's brand name, products, trademarks, etc. Manufacturers allow third-party operators to market and distribute their products via this contract. Moreover, they control the way the retailers carry out the distribution. In return, the franchisee pays the franchisor an initial fee and royalties.

Business Format Franchises

Business format franchises involve following a particular business format and the best processes and practices associated with it. The franchisor expands its operations by providing its well-established business concept or format. It guides the franchisee on how to launch and operate the business.

Manufacturing Franchise

In this arrangement, the franchisor gives the franchisee (a manufacturer) the right to produce goods under its trademark and brand name. This type of agreement is common among food and beverage companies.

Intellectual Property Rights

Intellectual property rights (IPR) refers to **the legal rights given to the inventor or creator to protect his invention or creation for a certain period of time**.[1] These legal rights confer an exclusive right to the inventor/creator or his assignee to fully utilize his invention/creation for a given period of time.

Patent

A patent is an exclusive right granted for an invention. Generally speaking, a patent provides the patent owner with the right to decide how - or whether - the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document.

Copy rights

Copyright is a legal term used to describe the rights that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

Trademark

A trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when artisans used to put their signature or "mark" on their products.

Industrial design

An industrial design constitutes the ornamental or aesthetic aspect of an article. A design may consist of three-dimensional features, such as the shape or surface of an article, or of two-dimensional features, such as patterns, lines or color.

Geographical indications

Geographical indications and appellations of origin are signs used on goods that have a specific geographical origin and possess qualities, a reputation or characteristics that are essentially attributable to that place of origin. Most commonly, a geographical indication includes the name of the place of origin of the goods.

Trade secrets

Trade secrets are IP rights on confidential information which may be sold or licensed. The unauthorized acquisition, use or disclosure of such secret information in a manner contrary to honest commercial practices by others is regarded as an unfair practice and a violation of the trade secret protection.

Examples of intellectual property rights include:

Patents

Domain names

Industrial design

Confidential information

Inventions

Moral rights

Database rights

Works of authorship

Service marks

Logos

Trademarks

Design rights

Business or trade names

Commercial secrets

Computer software

What are Some Examples of Violations of Intellectual Property?

The significant violations of intellectual property consist of infringement, counterfeiting, and misappropriation of trade secrets. Violations of intellectual property include:

Creating a logo or name meant to confuse buyers into thinking they're buying the original brand

Recording video or music without authorization or copying copyrighted materials (yes, even on a photocopier, for private use)

Copying another person's patent and marketing it as a new patent

Manufacturing patented goods without a license to do so

Sources of capital

One major source is **the savings of the owners of private businesses, and the undistributed profits of companies**. A second major source is borrowing, either by selling bonds or borrowing from banks and other financial intermediaries. A further source of capital is selling equity shares.

Personal Fund

Personal funds means earned income and unearned income retained by an individual after satisfying his or her obligations such as rent, individual-specific expenses, or medical co-payments; satisfying state requirements including patient liability and/or monthly premiums for services funded by a home and community-based services waiver; and satisfying federal requirements including adherence to income restrictions necessary to maintain medicaid eligibility.

Basically this refers to **any funds that you borrow, receive or have as an individual in your own name and not under the business**. An individual may decide to self-fund their own start-up using their savings, and on the positive side, it means that there isn't any additional cost involved.

Bank loan

A sum of money borrowed by a customer or business from a bank, often for a specific purpose

Venture capital funding

Venture capital funds(VCFs) are investment instruments through which individuals can park their money in newly-formed start-ups as well as small and medium-sized companies. These are types of investment funds that primarily target firms that have the potential to deliver high returns. Nonetheless, investing in these companies also involves considerable risk.

VCFs are somewhat similar to mutual funds – these constitute a pool of money collected from several investors. Here investors can refer to individuals with high net worth, companies, or even other funds. Instead of an asset management company, a VCF is managed by a venture capital firm.

What Does a Venture Capital Firm Do?

A venture capital firm identifies investment areas that can generate lucrative returns. It not only acts as the fund manager but also as an investor. Generally, a venture capital firm will also invest its own money as a form of commitment and assurance to its clients.

In lieu of investment, a venture capital firm may seek a chair amongst the directors at the company, and offer expertise and intelligence for better management.

Types of Venture Capital Funds

Pros and Cons of VCFs

Pros

One of the primary advantages of venture capital funds is that the company does have to repay the investment sum.

Even if the company fails, entrepreneurs are not in any way obligated to repay the invested fund, which is usually severely problematic in the case of bank loans.

Venture capital firms have a widespread network, which can help a start-up get the much-needed marketing and promotion that can eventually help to establish itself.

VCFs can help a company to expand quickly and exponentially. This may not be the case in any other type of funding.

Not only investment but VCFs bring years of expertise to the table. This proves crucial in human resource management, financial management, and business decisions, which young entrepreneurs may lack.

Cons

Venture capital firms have to assess whether investing in a company will be feasible and can help to generate favourable returns. This can take a prolonged time, which can delay funding.

By investing in a company, venture funds take part in a business' decision making. Venture capital firms also hold a chair on the board.

Due to the ever-growing number of start-ups, securing a VCF may be challenging.

Types of Venture Capital Funds

Venture Capital Funds are classified on the basis of their utilisation at different stages of a business. The 3 main types are early stage financing, expansion financing, and acquisition/buyout financing.

Early stage financing

There are 3 sub-categories in early stage financing. These are seed financing, startup financing, and first stage financing. Seed financing is a small sum given to the entrepreneur to serve the purpose of qualifying for a startup loan. Startup financing is when the companies receive funds to complete the development of its services and products. When companies need capital to begin the business activities in full swing, they need first stage financing.

Expansion financing

Expansion financing is classified into second stage financing, bridge financing, and third stage financing. The second stage and third stage financing are given to companies so that they can start their expansion process in a major way. Bridge financing is offered to companies in the form of monetary support when they employ Initial Public Offerings (IPO) as a principal business strategy.

Acquisition or buyout financing

Acquisition finance and leveraged buyout financing are the categories falling under acquisition or buyout financing. When a company needs funds to acquire another company or parts of a company, acquisition financing comes to aid. Leveraged buyout financing is required when a management group of a company wishes to acquire another company's particular product

Features of Venture Capital Funds

The main focus of VCFs is on early-stage investment but sometimes, it can also involve expansion-stage financing.

Often, equity stakes of the enterprises company make further advancements.

Sometimes the VCFs also help in developing new products/services and acquire latest technologies that will help the company to improve efficiency.

The biggest advantage that VCFs offer is the networking opportunities. With influential and wealthy investors promoting the company, it will in no time, achieve stellar growth.

VCFs hold the authority to influence the decisions of the enterprises they are investing in.

To mitigate the risks involved in funding new projects, VCFs invest in a variety of young startups with a belief that at least one firm will achieve massive growth and reward them with a large payout

or companies that are funded by the VCFs are purchased by the VCFs.

Angel investor

An angel investor is a wealthy person who invests his or her own money in a company—usually a start-up—that is in the early stages of development. Angel investors expect to take ownership positions in the companies they support because their capital is unsecured—they have no claim on the company's assets.

Why Look for an Angel?

An entrepreneur may seek an angel investor over more conventional financing. The terms tend to be more favorable and, in fact, the angel investor doesn't expect to get the money back unless the idea succeeds. They often seek an equity stake and a seat on the board.

Angel investors focus on helping startups take their first steps rather than getting a favorable return on a loan.

Angel investors have also been called informal investors, angel funders, private investors, seed investors, or business angels. They seek prospects through online crowdfunding platforms or join networks that pool capital for greater impact.

Origins of Angel Investors

The term angel investor originated in the Broadway theatrical world, where plays were often financed by wealthy individuals rather than formal lenders and payments were due only when and if the production was a success.

The term "angel investor" was first used by the University of New Hampshire's William Wetzel, founder of the Center for Venture Research. Wetzel completed a study on how entrepreneurs gathered capital.2

These days, Silicon Valley is the center of the angel investor's world, and the ideas being financed are related to the internet, software, or artificial intelligence.

Who Can Be an Angel Investor?

Angel investors have a genuine interest in innovation and a desire to be involved. Many have been entrepreneurs in the past.

Anyone who has the money and the desire to provide funding for startups can be an angel investor. They are welcomed by cash-hungry entrepreneurs who can't get conventional bank loans or don't want the burden of big debt until their ideas take off

What's the Difference Between an Angel Investor and a Venture Capitalist?

Venture capitalists deploy vast sums of cash pooled from many investors. They have big money to spend and they tend to spend it only on existing businesses that they think have an opportunity to turn a substantially bigger profit. For example, they might buy a moribund retail chain with the goal of revitalizing it over the next two years.

Angel investors are a different breed. They are individuals who are looking to put their own money into good ideas at their earliest stages of becoming successful businesses. They are committing their own money in hopes of making a good idea a reality.

Functions of angel investor

Angel investors typically provide capital for business start-ups in exchange for convertible debt or ownership equity. As such, they are usually considered to be higher risk/higher return investors than traditional investors. However, angel investors are often credited with playing a critical role in the development of many successful businesses. Some of the benefits of working with an angel investor include their accessibility and personal connection to the project. They may also provide valuable mentorship and advice, as well as introductions to their networks.

Crowd funding

Crowdfunding is a way to raise funds for a specific cause or project by asking a large number of people to donate money, usually in small amounts, and usually during a relatively short period of time, such as a few months. Crowdfunding is done online, often with social networks, which make it easy for supporters to share a cause or project cause with their social networks.

Organizations, businesses, and individuals alike can use crowdfunding for any type of project, for example: charitable cause; creative project; business startup; school tuition; or personal expenses.

There are 2 main models or types of crowdfunding:

Donation-based funding, where donors contribute to a total amount for a new project. Often promised return is the product or service that will be developed with the revenue brought in by the crowdfunding campaign. For charitable projects whose ultimate beneficiary is not the donor, there may be some other perk or reward for funders.

Investment crowdfunding, where businesses seeking capital sell ownership stakes online in the form of equity or debt. In this model, individuals who fund become owners or shareholders and have a potential for financial return, unlike in the donation model.

What are the benefits of crowdfunding for startups?

Crowdfunding is an innovative way for startups to raise the funds they need to launch or grow their businesses. And by turning to the crowd for funding, startups can reap a variety of additional benefits beyond the acquisition of funds.

The rise of the internet and social media has made it easier than ever to reach a large audience of potential investors and backers, each contributing a small amount towards a funding target. This approach not only makes the investment process more accessible, but it also provides several distinct advantages to startups.

Here are some of the key advantages:

Access to capital
Crowdfunding provides startups with access to capital that they might not have been able to secure from traditional funding sources, such as banks or venture capitalists.

Market validation
By presenting your idea to the public, you can gauge their interest and see if your product is something that people would actually want. A successful crowdfunding campaign can demonstrate there is demand for your product or service and act as a proof of concept for other investors and stakeholders.

Audience building
A crowdfunding campaign allows you to reach a large number of people, helping you create awareness and build an audience. Those who contribute to your campaign are likely to become your most passionate customers and vocal advocates.

Feedback and insights
Through the process of crowdfunding, you can receive feedback on your product or service before it officially launches. Backers can provide valuable insights and suggestions for improvements.

Less risk
Compared to traditional funding methods, crowdfunding can be less risky. You're not giving up equity or taking on debt; instead, you're exchanging your product or service for funding.

Publicity and marketing
A successful crowdfunding campaign can lead to significant publicity, through social media shares and likes and traditional media coverage.

Partnership and networking opportunities
Crowdfunding campaigns often catch the eye of industry leaders, potential partners, and even other funding sources. This visibility can lead to strategic partnerships and further investment opportunities

Types of crowdfunding

There are four main types of crowdfunding that startups can choose from, each with unique advantages and specific use cases it's more suited to supporting. Here's an overview of what startups need to know:

Reward-based crowdfunding

With reward-based crowdfunding, backers contribute funds to your startup in exchange for a "reward," usually a product or service your company offers. This model is typically used by startups that are launching a new product or service and need funding for development or production. Examples of reward-based crowdfunding platforms include Kickstarter and Indiegogo.

Reward-based crowdfunding is a popular method for raising funds, especially for creative projects or new product launches. Below are some of the key pros and cons.

Pros of reward-based crowdfunding:

No equity sacrificed: Unlike equity-based crowdfunding, reward-based crowdfunding doesn't involve giving up ownership in your company.

Market validation: Reward-based crowdfunding allows you to assess market interest in your product or service. If your campaign succeeds, it's a good sign that there's a market for what you're selling.

Pre-sales and marketing: Crowdfunding campaigns can also act as a pre-sale of the product, generating publicity and providing an initial customer base.

Community building: Crowdfunding platforms provide a way to communicate and engage with backers. This can help build a community of supporters who might help spread the word about your product or service.

Cons of reward-based crowdfunding:

All-or-nothing funding: Many crowdfunding platforms operate on an all-or-nothing basis, which means if you don't hit your funding goal, you don't receive any money. This isn't always true, but it's not uncommon.

Fulfilling rewards: It's important to deliver on promised rewards, which could be more time-consuming or costly than anticipated. Not fulfilling rewards can lead to reputation damage or even give supporters grounds to ask for their funds back.

Unpredictable success: Not all campaigns succeed, even if your idea is good. Success can depend on many factors, including the quality of the campaign, timing, and sheer luck. A startup might invest considerable time launching a campaign only to have it fall flat. Additionally, an unsuccessful campaign might erroneously give founders the impression that their business idea isn't viable or that there isn't strong market demand.

Public exposure: Your idea is shared publicly, which could lead to someone else copying it. You need to balance the need for publicity with the risk of revealing too much.

Fees: Crowdfunding platforms typically charge a percentage of the funds raised as a fee, and there could be additional processing fees.

Equity-based crowdfunding

With equity-based crowdfunding, backers receive shares of your company in return for their investment. This form of crowdfunding is used most often by startups with high growth potential, as it allows them to raise larger amounts of money in exchange for a stake in their company's future profits. SeedInvest and CircleUp are popular platforms for equity-based crowdfunding.

Pros of equity-based crowdfunding:

Larger amounts of capital: Since investors are purchasing a stake in the future success of the company, they may be willing to contribute larger amounts than in reward-based crowdfunding. This can allow startups to raise significant funds.

Long-term investor relationships: Unlike reward-based crowdfunding, where the relationship typically ends once the reward is delivered, equity crowdfunding can result in long-term relationships with investors who have a vested interest in the ongoing success of the company.

Access to expertise and networks: Investors often bring their own expertise, experience, and networks, which can be valuable resources for early-stage companies.

Cons of equity-based crowdfunding:

Loss of ownership: By offering equity in your company, you are giving away a portion of your ownership, which might mean sharing control and decision-making.

Regulatory complexity: Equity-based crowdfunding is subject to more complex laws and regulations than other forms of crowdfunding. This may require legal counsel and can result in substantial legal costs.

Increased reporting requirements: Companies with many shareholders often have to provide regular updates and financial reports to their investors. This can be time-consuming and require additional administrative resources.

Pressure for returns: Unlike reward-based crowdfunding, where backers are happy to receive the product or service, equity investors seek a financial return on their investment. This can increase the pressure on the company to perform and provide returns.

Potential for dilution: If you raise more equity funding in the future, the percentage of the company owned by earlier investors (including crowdfunding investors) may be diluted. This can lead to dissatisfaction among investors if not handled correctly.

Debt-based crowdfunding

Also known as “peer-to-peer lending” or “P2P lending,” debt-based crowdfunding is similar to a traditional loan. Instead of getting a loan from a bank, you’re getting a loan from a crowd of investors. The startup agrees to pay back the loan with interest over a specified period of time. LendingClub and Prosper are well-known platforms for debt-based crowdfunding.

Pros of debt-based crowdfunding:

Retention of ownership: Unlike equity crowdfunding, with debt-based crowdfunding you don’t have to give up any ownership stake in your company. Once the loan is repaid, your obligation to your investors ends.

Faster process: The process for securing a loan through debt-based crowdfunding can be faster than through traditional banks. The qualification requirements may also be less strict.

Fixed repayment schedule: You’ll have a fixed repayment schedule, which can be easier to plan for than the unpredictable nature of equity investments.

Potentially lower costs: Depending on the interest rate you secure and the length of your loan, debt-based crowdfunding can sometimes be a cheaper form of finance than equity-based crowdfunding or other types of loans.

Cons of debt-based crowdfunding:

Obligation to repay: Unlike other forms of crowdfunding, the money you raise through debt-based crowdfunding must be paid back with interest. This is a fixed expense you’ll need to plan for, regardless of how well your business is doing.

Interest costs: The cost of the loan includes not just the principal amount you borrow, but also the interest you’ll pay over the life of the loan.

Risk to credit score: If you’re unable to make your loan repayments, your credit score may be affected, which can impact your ability to secure financing in the future.

Secured loans risk: Some debt-based crowdfunding might require collateral or a personal guarantee. If the loan isn't repaid, you risk losing the assets you've pledged as collateral.

Donation-based crowdfunding

This model is commonly used by nonprofits, social entrepreneurs, and startups where the "return on investment" is not financial, but a social good or some form of community benefit. Backers donate money to the project because they believe in the cause, not because they're expecting a financial return. GoFundMe is a well-known platform for donation-based crowdfunding.

Pros of donation-based crowdfunding:

No repayment or equity exchange: Backers donate the money to your project or cause, so you don't have to worry about repaying a loan or giving up a share of your business.

Support for social causes: Donation-based crowdfunding is particularly effective for projects or causes that have a social, charitable, or community focus. People are often willing to donate money to support causes they care about.

Community engagement: This form of crowdfunding can be a good way to build a community of supporters who are emotionally invested in your project or cause.

Cons of donation-based crowdfunding:

Limited appeal: Donation-based campaigns often rely on the emotional appeal of the project or cause, which might limit their appeal to a wider audience. These campaigns may be less successful for commercial projects.

Lack of guaranteed funding: As with other forms of crowdfunding, there's no guarantee you'll reach your funding goal. And on some platforms, if you don't reach your goal, you won't receive any funds.

Public exposure: As with other forms of crowdfunding, your idea is public, which could lead to someone else replicating it.

Platform fees: While the money you raise doesn't have to be paid back, most platforms charge a fee based on the amount of money you raise

MODULE - 4
Entrepreneurship Development and Government

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Entrepreneurship Development and Government

Structure

Learning Objectives

On the completion of this module you should be able to understand:

- The role of Central and State Government in promoting Entrepreneurship
- The various incentives, subsidies and grants given by the Government
- Role of various agencies in Entrepreneurship Development

4.1 Introduction

Small and medium business has received importance in the frame of Indian planning or both ideological and economic reasons. Support to SMEs; have been provided due to multiple reasons and objectives. A few to mention and the same has been discussed in the earlier chapters. In the following module we shall discuss the initiatives taken by the Government to promote entrepreneurship and also the institute which promote the entrepreneurship development.

i. Generation of immediate employment opportunities, with relatively low investment
ii. Promotion of SMEs will lead to equitable distribution of national income;
iii. Effective mobilization of human unutilized potential and success; and
iv. Dispersal of manufacturing activities are over the country, indirectly leading to uniform growth of villages, tier two cities or towns and remote areas lagging in economic growth. SME development has been a major concern for Government of India and has launched various programs for development of this sector during the last six decades. The objectives and intentions are deliberated in the Industrial Policy Resolutions (IPRs) from time to time. A few are 1948, 1956, 1977, 1980, 1990 and 1991. A few highlights of the policies, which will indicate the emphasis given in small and medium businesses are narrated in the following paragraphs.

4.2 Role of Central Government and State Government in Promoting Entrepreneurship

Startup India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage startups with jobs creation. The campaign was first announced by Prime Minister Narendra Modi in his 15 August 2015 address from the Red Fort. It is focused on to restrict role of States in policy domain and to get rid of “license raj” and hindrances like in land permissions, foreign investment proposal, environmental clearances. It was organized by Department of Industrial Policy and Promotion (DIPP).

A startup is an entity that is headquartered in India which was opened less than seven years ago and has an annual turnover less than 25 crore (US$3.9 million). The government has already launched iMADE, an app development platform aimed at producing 1,000,000 apps and PMMY, the MUDRA Bank, a new institution set up for development and refinancing activities relating to micro units with a refinance Fund of 200 billion (US$3.1 billion).

The Standup India initiative is also aimed at promoting entrepreneurship among SCs/STs, women communities. Rural India's version of Startup India was named the Deen Dayal Upadhyay Swaniyojan Yojana.

Definition of Start-up – Startup Action Plan 2016

- Startup means an entity, incorporated or registered in India not prior to five years, with annual turnover not exceeding INR 25 crores in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.
- Provided that such entity is not formed by splitting up, or reconstruction, of a business already in existence.

Policy Framework for Promoting Small Enterprises:

Government realizing that the Small and Medium Business are the vehicle of economic growth, emphasized the needs for legal support to Small Enterprises. In the following paragraphs we shall deliberate on the Industrial Policy Resolutions issues during various stages and understand the support provided.

Industrial Policy Resolutions 1948:

In this document the Government accepted for the first time the importance and specified the contribution to the growth of Indian economy. In the overall industrial development of the country it mentioned the importance of small scale industries for utilization of local resources and creating of employment opportunities. Despite this small scale business faced problems of raw materials, skilled labor, marketing, this was there for a long period. The IPR 1948 made reemphasis on problems to be resolved by both central Government and state governments. We could summarily mention that IPR 1948 was first time supported SMEs concern and protection.

IPR 1956:

The IPR 1956 set a pattern to describe the nature of industrial development in India. This is due to post IPR 1948 developments in the country and a specific mention must be made to the First Five year plan 1951-56 and industries (Development and Regulation) Act 1951, was introduced to regulate and control industries in the country. It was with this background that the declaration of a new industrial policy resolution seemed essential. This came in the form of IPR 1956.

This policy ensured that small scale industries as a decentralized sector, acquires vitality to self support and its growth and development is integrated with large scale industries. A very important feature was that,

a) 128 items were reserved for exclusive manufacture and production in the small sector and large industries banned from production of these items.
b) Small scale industries board (SSIB) was set up and a working group in the year 1959 in India, during Third five year plan 1961-66 to facilitate the growth of small scale industries.
c) In the Third five year plan, specific development projects, rural industries projects and Industrial Estate Projects were initiated to strengthen the small scale Industries sectors. Details are discussed later in the module.

IPR 1956 aimed at "protection and development" and can be described as important area for modern small scale industry development. Thus it aimed at a new approach to facilitate the growth of small scale industries.

IPR 1977:

The IPR 1956 was in place for over two decades, and the result was skewed industrial development in favor of large and medium sector and increase in unemployment. The very purpose of IPR 1956, did not meet its philosophy. This led in renewed thinking of the industrial policy and this gave rise to the emergence of IPR 1977.

Interestingly the policy statement categorically mentioned "the emphasis or Industrial policy so far has been mainly on large scale industries, neglecting small industries to a minor role, the main thrust of the new industrial policy will be on effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns". It further stated that, whatever can be produced in the small and cottage industries must be produced by small only".

IPR 1977 classified small sector into time categories.

i. Cottage and household industries- provide self employment.
ii. Tiny sector incorporating investment in industrial inputs in plant and machinery up to 1 lakh and located in towns with a population of less than 50,000 as per 1971 census.
iii. Small scale industries were defined as industrial units with investment up to Rs. 10 lakh and ancillary up to 15 lakh.

The policy suggested for promotion of small scale as cottage industries included

a) Reservation of 504 items for exclusive production in small scale sector.
b) Establish direct agency called "District Industry Center (DIC) to serve as a nodal point for development and small scale and cottage industries. This was introduced in 1978.

The most significant feature from the above was that earlier the trust of protection (IPR 1948) Development IPR 1956, 1977 added promotion. As per the resolution, the small sector was thus; to be protected, developed and promoted.

IPR 1980:

A new Industrial Policy Resolution IPR was adopted on July 23, 1980. The main objective defined was facilitating an increase in industrial production, emphasis on optimum utilization of installed capacity and expansion of industries.

The resolution envisaged:

i.

- Increase in ceilings from 1 to 2 lakh tiny units,
- Increase in ceilings from 10 to 20 lakh small scale units.
- Increase in ceilings from 15 to 25 lakh ancillaries.

ii. The concept of District Industries Centre was replaced by the nuclear plants, in industrially backward districts to promote maximum small scale industries.

iii. Promotion of village and rural industries to generate economic viability in the villages to bring a well compatible environment for economic growth.

To conclude IPR 1980, reemphasis the spirit of the IPR 1956, the small scale sector was identified as the most vibrant sector with a focus on self-employment and opportunity creation in the country.

IPR 1990:

The IPR 1990 was announced during June 1990- the resolution continued to emphasis on giving increased importance to small scale enterprise with the objective on employment generation. The key feature of the IPR 1990 was boost development of small scale sector.

1. The investment ceiling in Peat and machinery for small scale industries (fixed in (1985) was from 35 lakh to 60 lakh, for ancillary from Rs.45 to 75 lakh.
2. Tiny sector units: 2 lakh to 5 lakh. Location of the unit in an area having a population of 50,000 as per 1981 census.
3. As many as 836 items were reserved for exclusive manufacture in the small scale sector.
4. A new scheme of Central Investment subsidiary exclusive for small scale sector in rural and backward areas with an objective generate more employment at lower cost of capital was extended and implemented.

5. The IPR also focused on improving competitiveness of the products in the small scale sector, by providing support for technology up gradation. A technology up gradation centre in small scale industries development organization (SIDO) was started for the purpose.
6. Specialized bank Small Industries Development Bank of India (SIDBI) was established with the objective to provide "adequate, timely flow of credit facilities for small scale industries. This is a apex bank for small scale Industries.
7. The other emphasis was on utilizing the potential of new generation small business persons under entrepreneurial development program (EDPs) a new cell was credited in SIDO.
8. Implementation of de licensing of all new units with investment of 25 crore in fixed assets in non backward areas and Rs.75 crore with centrally backward areas. Similarly de licensing shall be implemented in case of 100% export oriented units (EDU) set up export processing zones. (EPZ) to all investment of Rs. 75 lakh.

In general, this IPR 1990 continued its approach of protection, development and promotion. The addition feature was encouraging youth with potential to start small scale business. The other progressive step was support and export oriented units.

New Small Enterprise Policy 1991

The Government of India, for the first time tabled the policy document for the new small enterprise policy in the parliament, on the August 6,1991. This was titled as "Policy Measures for Promoting and Strengthen and supplementing Small, Tiny and Village Enterprises". The main thrust of the New Small Enterprise Policy was to enhance the support to this sector so that it could provide greater impetus to growth of the economy. The focus was on the growth of output in the small scale sector, employment generation and exports. The sector has been delicensed, and the effort was to deregulate and reduce bureaucratic process in the sector with a view to remove all hurdles on its growth potential on one hand and reposing faith in small and new entrepreneurs as contributors to Indian economy.

The Salient features of the new small enterprise policy are as under:

1. Increase in the investment in Plant and Machinery of the following as under. Tiny Enterprises from 2 lakhs to 5 Lakhs and this would apply to any location.
2. The Inclusion of industry – related services and business enterprises, irrespective of their location, as small –scale industries.
3. To introduce a limited Partnership Act. This would limit the financial liability of the new entrepreneurs to the capital invested.
4. Introduction of a scheme of Integrated Infrastructural Development (including technological back-up services) for small scale industries.
5. Factoring services were introduced to help solve the problems of delayed payment to the small business sector.
6. In order to facilitate marketing and promotion of products manufactured in the small sector, a consortium approach was initiated through co-operative /public sector institutions, and other specialized professional/ marketing institutions.
7. A technology Development Cell be set up in the Small Industries Development Organization (SIDO).
8. Export Development Centre be set up in the Small Industries Development Organization (SIDO), to facilitate export promotion.
9. The National Equity Fund (NEF), was established to support small and medium Business, the scope was enhanced to include the single window scheme and the commercial banks were included a part of the scheme to provide comprehensive loans.

There are notable observations in the new small enterprise policy. A few to mention are as follows.

1. The new policy was initiated to address the fundamental problems of the small- scale sector and the measures proposed are directed to mitigate the various handicaps the sector was experiencing.

2. The policy is more realistic, as the policy is more broad based and defined as 'small business policy', and not 'small industries policy' . The industry meant mainly manufacturing, the new policy has now widened the scope to include industry related services and business enterprises.
3. The changes in the definition, of tiny enterprises has implications which is twofold; first having raised the ceiling on investment from 2 lakhs to 5 lakhs and second the removal of the geographical restrictions, so that units located in bigger towns could become a part of the tiny sector.
4. The new policy provides for continuous support to the tiny sector like access to institutional finance, preference in government purchase and relaxation of certain labor laws. Since tiny sector is basically nurtures traditional skill, and the business will be localized based on natural resources, the proposed package of incentives will help in the growth of the sector.
5. The major policy change relates to equity participation by another undertakings up to 24 percent in a small unit.. The other undertakings may be small or large, Indian or foreign. This has been initiated with two basic premises. Firstly, equity participation up to 24 percent by outsiders will not allow them to dominate in the small scale industry. Secondly, involvement by large and foreign firms in small units will bring technology transfer, thus will facilitate growth. The new policy is mutually beneficial to both large and small units thus facilitate the development of dependency between the small and large sectors.
6. One important feature is the introduction of a new legal form of organization of business, namely, restricted or limited partnership. As per this , the liability of at least one partner is unlimited and liability of the other partner is limited to their invested capitals. This is a welcome provision, as it will attract equity capital from friends and relatives who were reluctant to advance their funds due to the limited liability of the partners.

New Policy Initiatives in 1999-2000 for Small Scale Sector:

1. The investment limit for small scale and ancillary undertakings was reduced from the existing Rs 3 crore to Rs 1 crore.
2. 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 is increased from 4 crore to 5 crore.
3. The Government announced a new Credit Insurance scheme in the budget 1999-2000 to provide security to banks and facilitate improving flow of credit to SSI units, especially the export oriented and tiny units.
4. There was an effort to ensure the outreach of banks to the tiny sector, it was suggested that banks initiate lending to non- banking financial companies (NBFCs) and other financial intermediaries for the purpose of lending to the tiny sector, this is defined as priority sector for bank lending.
5. A National program for Rural Industrialization was formulated, with a mission to set up 100 rural clusters every year, and give a boost to rural industrialization.
6. WTO issues was very important and was prevalent during the period, thus WTO Cell was established in the office of the development commissioner Small scale industries New Delhi. The objective was to disseminate information to SSI associations and SME units on the developments, prepare policies for SSIs in tune with the WTO agreements and organize sensitization workshops and seminars.
7. Exemption from excise duty as provided to SSI units, was extended to goods bearing a brand name of another manufacturer in the rural areas. Cotton yarn was included in the general excise exemption scheme for SSIs. Further small job workers engaged in the printing of glazed tiles, have been exempted from excise duty.

HIGHLIGHTS OF BUDGET 2006-07

In order to give a fresh impetus to lending by the Small Industries Development Bank of India (SIDBI), the Finance Minister proposed the following:

i. Recognize the Small and Medium Enterprises (SMEs) in the services sector, and treat the small scale enterprises in the services sector at par with the small scale enterprises in the manufacturing sector;

ii. Raise the corpus of the Credit Guarantee Fund from Rs. 1132 crores at end-March 2006 to Rs.2500 crore in five years. He has proposed to provide a sum of Rs. 118 crores in 2006-07;

iii. Advise Credit Guarantee Trust for Small Industries (CGTSI) to reduce the one time guarantee fee from 2.5% to 1.5% for all loans; and

iv. Extend insurance cover to approximately 30,000 borrowers, identified as promoters, under the CGTSI. The sum assured would be Rs. 2, 00,000 per beneficiary and the premium will be paid by CGTSI.

v. The National Manufacturing Competitiveness Council (NMCC) has drawn up ten schemes. One of the schemes is marketing support for SMEs.

vi. Cluster Development Programme is being implemented in nine sectors falling under different ministries. The sector includes Khadi and Village Industries, handlooms, handcrafts, textiles, agricultural products and medicinal plants.

vii. The Government has taken a policy initiative to enhance the overall contribution of the SME sector to the national economy. The ceiling on loans taken for technological improvements under the credit-linked capital subsidy scheme has been raised from Rs. 40 lakhs to Rs. 1 crore.

viii. The central Government has also increased the subsidy available under the scheme from 12% to 15%.

ix. The investment limit in plant and machinery has been raised from Rs. 1 crore to Rs. 5 crore for 69 products in the SME sector.

x. In order to enhance credit flow to small sector, SIDBI has set up state enterprises financial centers in association with public sector banks. Term loans will be given by SIDBI while working capital requirements will be met by commercial banks.

xi. The government is working on a package for the 'promotion of micro and small enterprises' to encourage adequate credit flow as well as provide incentive for technical upgrades. SME sector has seen a 16.9% jump in production in 2004-05 over the previous year. Employment during the same period grew at 4.3% per annum. The share of credit flow of SME has also sagged over the last three years. The share of SME in net bank credit (NBC) dispersed has declined from 11% in 2003 to 9.4% in 2005.

xii. 180 items have been proposed to be de reserved out of the reserved products of SSIs. The number of items reserved for exclusive manufacture of SSI is 317.

LATEST DEFINITION W.E.F 3rd OCT 2006

Type of Enterprise	Engaged in Manufacture or Production of Goods Investment in Plant and Machinery	Engaged in Providing or Rendering of Services Investment in Equipment
Micro Enterprise	Does not exceed Rs.25 lakh	Does not exceed Rs.10 lakh
Small Enterprise	More than Rs.25 lakh, but does not exceed Rs. 5 Crore.	More than Rs.10 Lakh, but does not exceed Rs. 2 Crore
Medium Enterprise	More than Rs. 5 Crore but does not exceed Rs.10 Crore	More than Rs.2 Crore but Does not exceed Rs. 5 Crore

Source: MSME ACT 2006

KARNATAKA STATE GOVERNMENT POLICIES

Karnataka has been a pioneer in industry. The state has strong industrial base, which combines the intrinsic strengths of large industrial public sector undertakings, large and medium privately owned industries, biotechnology and strong research and development institutions have given Karnataka a place of pride in the global market. The state is among the top five industrial states in the country. The achievements of industrial sector are as under:

Summary Result 4th All India MSME Census	REF (2006 – 07)	All India Nos	Karnataka Nos
		15.33 Lakh Reg 245.48 Lakh un Reg	1.40 Lakh Reg 14.72 lakh un Reg

SSIs in Karnataka As on 31.	Nos	Employment	Investment
	413354	2395000	12399 Cr

Latest Policy on MSME	**MSME 2006**	**-DC MSME or MSME Dev Act 2006**
Latest Kar. State Industrial Policy	**Kumbangalore.com Policy 2009 - 14**	**- General policy Covering SSIs.**

Also ref Census on SSI – Summary Result 4th All India MSME Census

Bangalore has the distinction of being the destination for a large number of MNCs in knowledge-based industries and technology driven sectors. It is recognized as one of the top techno polices in the world.

NEW INDUSTRIAL POLICY-2001

The new industrial policy-2001 was effective from 1-4-2001 to 31-3-2006. The policy aimed at the following missions:

a) To achieve an economic growth rate of 10% to 12% per year over the new decade.

b) To attract investments of at least Rs. 20, 000. Crore per year.

c) To create, on an average, employment potential of at least 1.5 lakh persons per year.

d) Fully tap the potential of small scale sector and encourage potential of new tiny and SSIs particularly in rural areas.

The list of above mentioned mission is long.

Policy framework:

i. Technology up gradation:

a) The Govt. of Karnataka formed the technology up gradation fund of Rs. 50 crores over the period of five years to focus on the niche products and processes in the value chain of industries in which Karnataka has competitive advantage. Those who avail loans from state financial corporation for technology up gradation and modernization with get subsidy.

b) To establish, over the rest 5 years, ten more science and technology entrepreneur parks (STEP) in potential districts of the state. Government assistance will be given in the form of capital grants for creating basic infrastructure facilities to the extent of 25% of the coast of each STEP subject to a ceiling of Rs. 25 lakhs.

ii. Infrastructure support.

a) Government will establish an Infrastructure development fund with an initial corpus of Rs. 100 crores to provide industry access to high quality industrial infrastructure at competitive prices.

b) Industrial townships will be established in major locations that have cluster of industries. The Karnataka Industrial Areas Development Board (KIADB) will act as key Govt. agency to develop these parks.

iii. Human Resources Development:

a) The Govt. will, with active participation of industry, revitalize the network of Artisan training Institutes, the district training institutes and polytechnics to upgrade the quality and skill of manpower employed small enterprises.

b) To promote a strong entrepreneurial base, the Govt. will strengthen the Centre for entrepreneurship Development of Karnataka (CEDOK).

c) In order to encourage micro enterprises in rural and backward areas the Govt. of Karnataka will continue its programme of establishing rural development and self-employment training institutes (REDSETI's) in all Districts of state.

d) Govt. will also promote specialized training institutes, viz. Steel Technology Institute at Bellary and Three Automobile Training Institutes at Bidadi, Shimoga and Dharwad.

iv. Deregulation of business environment:

Regulatory framework will be simplified because it is a barrier to the growth of industry. Some of the amendments are:

a) Karnataka Udyoga Mitra (KUM) shall be the nodal agency to guide and provide assistance to entrepreneurs to obtain clearance from various departments at the implementation stage of the project.

b) To reduce the multiplicity of application forms, a combined application form (CAF) shall be introduced.

c) Under 'Fast Track clearance' entrepreneurs will be required to complete the CAF and submit it to KUM as a single window for obtaining necessary clearances from the various departments concerned.

v. Marketing assistance for SSI sector:

a) The state has established the Karnataka small industries marketing corporation to provide marketing assistance to SSI sector.

b) To protect SSIs, the purchase and price preferences to SSI sector shall be continued for at least 5 years.

c) 75% of the items reserved by the SSI sector shall be procured from the units located within the State, through an open tender system;

d) SSIs of the State shall be offered a price preference of 15% over the lowest price quoted;

e) This benefit will be available for a period of 5 years from 1st April, 2001.

Incentives and concessions

The state has been divided into four zones.

Developed areas	Zone-A
Developing areas	Zone-B
Backward areas	Zone-C
Growth centers and mini growth centers, specialized industrial parks and list of Taluks	Zone-D

i. Investment subsidy. The details of investment subsidy to small scale sector and tiny industries are as follows:

Zone particulars	Industry sector eligible for subsidy	Investment subsidy
A. Developed areas	Nil	Nil
B. Developing areas	Tiny industries	10% of value fixed assets subject to a max. of Rs. 5 lacs.
C. Backward areas	Tiny industries	20% value of fixed assets subject to a max. of Rs. 10 lacs.
D. Growth centers	Tiny and small scale industries	25% value of fixed assets subject to a max. of Rs. 12.5 lacs.

ii. Entry Tax Exemption:

Entry tax exemption will be extended to all new industries as detailed below:

Zone	Particulars	Entry tax exemption period
A	Developed areas	Nil
B	Developing areas	3 years
C	Backward areas	5 areas
D	Growth Centers etc…	8 years

iii. Stamp duty exemption:

All new industries and also such units taking up expansion, diversification and modernization will be eligible for 100% exemption of Stamp duty and reduction of registration charges to Re. 1 per Rs. 1000 in respect of loan financial assistance from State Govt. and/or some financial institutions.

iv. Special concessions for export.

The following benefits will be extended to export oriented units. (EOUs):

a) Investment subsidy.
b) Exemption from power cuts.
c) Exemption from payment of entry tax and sales tax payable on purchase of raw materials, components, packing materials, consumables, spares etc.

v. Waiver of Conversion Fee.

The payment of conversion fee for converting the land from agriculture use to industrial use will be waived for tiny and SSI units set up in all areas other than Zone-A. This concession will be limited to a maximum extent of 2 acres only.

4.3 Introduction to various incentives, subsidies and grants

In the earlier paragraphs we have discussed the development process in small scale industries post independence and the current status. Apart from this Government has disclosed various incentives, subsidies and grants to stimulate the growth of the most vibrant sector, small and medium business in India. A few to mention are discussed below. This have been initiated and existed from time to time.

Incentives:

The SSI sector plays an important role in industrial production, generation of employment and exports. The government has taken steps to support this sector through policies and financial assistance, incentives, subsidies, and technology. Entrepreneurs really need these incentives for establishing their own industries. New ventures may have high risks and first generation entrepreneurs may not be aware of the high risk. Incentives and subsidies help in reducing the risks. With this view both Central and State Government are offering incentives, and subsidies and making continuous modification in the plans to motivate the new entrepreneurs in order to maintain economic growth.

Meaning of incentives:

Incentives are the motivation elements which help entrepreneurs improve their productivity. It helps them to take right decisions and help in achieving them.

Incentives mainly include three types:

a) Concessions.

b) Subsidies.

c) Bounties.

Incentives help entrepreneurs to achieve their goals and they can be either financial or non-financial.

a) Concessions:

Policies and guidelines are made liberal and relaxations are given to the entrepreneurs to undergo a particular creative activity. They are nothing but some reliefs which provide certain independence from the restrictions imposed by the Government.

b) Subsidy:

Subsidy is a onetime lump sum payment provided by the Government to an entrepreneur compensating him for the excess cost over the actual price for that particular product.

c) Bounty:

Bounty is nothing but a bonus or fund provided by the government to an industry or a product to improve its quality to compete with other products or units in foreign markets.

Thus, the main objective of incentives is to encourage entrepreneurs to initiate entrepreneurial activities so that there is an enhancement in the supply of goods and services in the country.

Advantages of incentives and assistance:

1) They encourage entrepreneurs to take on new entrepreneurial activities.
2) They inspire the new entrepreneurs to establish their industries in rural areas.
3) They inspire first generation entrepreneurs to be a part of industrial development of the country.
4) They help in improving the struggling ability of the entrepreneurs to face the environment. Example: reservation of items for small scale sector is made to strengthen the SSIs in terms of their struggling ability.
5) They actually solve the problems of entrepreneurs such as insufficient facilities, distance between administrative offices and implementation sites, lack of intelligent human resource, lack of training, banking amenities, scarcity of institutional mechanism etc…

Schemes of Incentives in operation:

These schemes are provided by the Central and State Governments along with the union territories. They are:

1) Export/import subsidies and bounties.
2) Interest free loans.
3) Subsidy for R&D works.
4) Capital investment subsidy.
5) Transport subsidy.
6) Interest subsidy.
7) Subsidy for power generation.
8) Exemption from proprietary tax.
9) Subsidies to artisans and traditional industries along with handlooms.
10) Incentives to non resident Indians.
11) Special incentives to women entrepreneurs.
12) Special incentives to retired defiance personal.
13) Interest free sales tax loans.
14) Sales tax exemptions.
15) Subsidy for buying test equipment.
16) Land and building at concessional rates.
17) Price preference to SSI units.
18) Subsidy/assistance for technical consultancy.
19) Exemption from stamp duty.
20) Concessional water.
21) Provisions for seed capital.
22) Allotment of developed /constructed sheds.
23) Allotment of controlled or subsidized raw material.
24) Subsidizing the cost of market studies/feasibility studies or reports.

Financial Incentives:

Following are some of the incentives available to small scale units:-

1) **Subsidy relating to investment:** Government has taken steps to initiate different schemes to help the entrepreneurs and also to encourage them. They are capital investment subsidy, transport subsidy, power generator subsidy, special investment schemes for women entrepreneurs, provision for seed capital, subsidy for technical feasibility study etc… as SIDBI being the apex bank for SSI sector it is providing equity type of schemes like seed capital scheme, national equity fund scheme, wingle window scheme to give both term loan as well as working capital, venture capital fund with a corpus of Rs. 80 crores etc…to improve the speed of investment in small scale sector.

2) **Export/import subsidies and bounties:** Hundred percent Export oriented units (EOU) and units in the Export Processing Zones (EPZ) take the benefit of incentives and facilities, such as duty free import of capital goods, raw materials, and consumables along with tax concession on export. As per the Budget 2000-01, under section 10-A of the income-tax Act, newly established industries in free trade zones will have a tax holiday for 10 years. And as per section 10-B of the income tax Act gives a ten year tax holiday for newly set up pure export oriented (100%) units.

3) **Subsidies relating to research and development:** Government is providing subsidies to develop research activities in small scale sectors. Rs. 50 crores has been sanctioned in 2000-01 for Technology Information Forecasting and Assessment Council. And also Rs. 50 crores has been made in budget for initiating New Millennium Indian Technology Leadership Initiative. The Government has already approved 75 crores for the patent office and to remove all the hurdles.

4) **Subsidy relating to taxes:** Tax subsidies are provided with an objective to increase the pace of entrepreneurial activities and to motivate entrepreneurship such as exemption from estate duty, tax relief to NRIs, discount in income-tax, interest free sales tax loan, sales tax subsidy, exemption from sales tax etc…

5) **Subsidy relating to resources:** The infrastructural facilities are provided by the Government to the small industries at subsidized

rates. The subsidies are provided for purchase of testing tools, industrial estates and parks, allotment of land and buildings, supply of water, arrangement of sheds, arrangement of raw materials at concessional rates are few of the subsidies.

6) **Capital subsidy scheme:** The capital subsidy scheme was introduced by the Central Government in November 2000 for SSIs for technology up gradation. Under this scheme a 12 per cent back ended capital subsidy will be permissible on loans and moved to SSI units by the scheduled commercial banks/ designated state financial corporations.

   This scheme will be under process for 5 years from October 1, 2000 to September 30, 2005 or till the nodal agency SIDBI sanctions capital subsidy which reached Rs.600 crore the earlier one. This scheme will assist in technology up gradation pertaining to the specified products. Swapping of existing technology or materials with the same technology or materials won't qualify for the scheme and also did not apply for units going for up gradation with second hand machinery.

7) **Excise duty exemption:** This is the most important incentive for small scale units. This was diluted by MODVAT (modified value added tax) and the drop in excise duties. Now the excise duty exemption has been increased by the government from 50 lakh to 1 crore. Earlier the government increased it from 30 lakh to 50 lakh in 1998 and this is the second increase so far. The government has faced some loss due to this but it is worth it.

Tax concession:

These are the special tax concession provided by the government. Such measures include: i) Income tax concessions ii) customs duty drawbacks, iii) exemption and preferential treatment in respect of excise duty, iv) exemption from sales tax v) tax holidays for new industries.

1) Tax incentives/concessions/deductions from profits and gains:

i. IT sector 90 –HH-20 percent for 10 years for industries to be set up under the Factories Act in backward areas.

ii. IT section 80-HHA-20 per cent for 10 years of SSI units to be set up in rural areas.
iii. IT section 80-1-20 per cent for 7 to 9 years for SSI units to be set up under factories Act, 25 percent for 11 years in case of co-operative societies, 35 per cent for companies.
iv. IT section 80-1A-25 per cent for 10 years for industries to be set up under Factories Act, 100 percent for 5 years and 25 per cent for next 5 years for backward areas only.
v. IT section 80-1B- the small scale units commencing production between April 01, 1995 and March 31, 2000 are allowed a deduction of 25 percent of their profits (30 percent for companies) for a period of 10 years.

2) Incentives for exports including duty drawbacks:

Following tax incentives on exports are offered by the Government.

i. Deduction in respect of profits from projects outside India (Section 80-HHB).
ii. Deduction in respect of Export Turnover (Section 80-HHC).
iii. Deduction in respect of earnings in convertible foreign exchange (80-HHD).
iv. Deduction for consultancy exports (80-0).
v. Ten year tax holiday for newly established industrial undertaking in the free trade zones, or electric hardware technology parks and software technology parks (sect. 10-A)
vi. Ten year tax holiday for newly established 200 percent export oriented undertaking (section 10-B).
vii. Duty draw back facilities are provided in two ways:

    1. Drawback of the whole of important duty on important articles, components and raw materials and excise duty paid on excisable components used in the manufacture of the product when it is exported.

2. Drawback of 90 per cent of duty paid on imported article when it is exported.

3) Exemption and preferential treatment from excise duties:

For SSIs having clearances in the proceeding financial year not exceeding Rs. 30 million, the present rates of excise duties are as under:

Clearances	Rate of duty for SSIs avail modvat credit.	Rate of duty for SSIs avail Modvat credit.
Not exceeding Rs. 10 Million Rs. 10 to 30 million Goods for capital consumption.	Nil Normal Nil	60% of normal rate Normal Nil
Note: commodity specific exemption for small scale units, namely, articles of plastics/cosmetics and toilet preparation, tread rubber, air conditioning and refrigeration machinery and parts have been merged with the general SSI exemption scheme with effect from April 01. 2000		

4) Modvat credit: It is allowed at the rate of 100 percent of duty paid on inputs whether it is excise duty or additional duty of customs. The capital goods purchased and used for machineries are also included in it.

5) Exemptions from sales tax:

i. No liability under state sales tax, law for import of the goods into or export of goods out of the country.

ii. Export sales are exempted from levy of sales tax under Central Sales tax Act, 1957.

6) Other incentives:

a) Capital investment subsidy:

This scheme was notified on June 01, 1998 under the PM's new initiative taken for the North eastern region. Under this scheme subsidy of 15 percent of the investment in machinery and plant with maximum ceiling of Rs. 3 million should be paid to the industry or their substantial expansion in other recognized areas in North Eastern Region. This scheme is operated by the respective State Governments.

b) **Transport subsidy:** This scheme was notified in July 1971 to encourage industries in remote, hilly and inaccessible regions. The scheme is applicable in J&K, North Eastern States, States of Himachal Pradesh, union territories of Andaman and Nicobar islands and Lakshadweep, Darjiling, eight hill districts of UP comprising Almora, Chamoli, Deharadun, Nainital, Pauri, Garhwal, Pithorgarh, tehri garhwal and uttar kasha. The subsidy is up to 50 percent to 90 percent admissible on transport expenses. This is extended up to March 31, 2007.

c) Incentives for electronic and information technology:

i. The electronics industry, except aerospace and defense electronics has been completely de licensed.

ii. Export earnings from IT products not to be taxed.

iii. Depreciation of IT products to be allowed at 60 percent.

iv. Units located in electronics hardware technology parks (EHTP) and software technology parks (STP) are exempted from payment of corporate income tax for 10 years.

v. Income derived by foreign companies as dividend and interest would be taxed at the rate of 20 percent.

vi. The payments in the form of royalty and technical service fee to be taxed at 30 percent.

vii. Under section 80-HHE of the income tax Act, definition of computer software has been widened to include transmission of data.

viii. Exemption of withholding tax on interest on external commercial borrowing has been extended to the IT sector.

ix. The tariff levels are being brought in line with the average international levels in a phased manner.

Government assistance:

The National Small Industries Corporation (NSIC) Ltd. was set up by Indian government in 1955 to encourage small industries. This allows entrepreneurs to hire machineries, get equipments on lease, also helps in getting the raw materials, and provides technical and managerial assistance. Some of the NSICs assistance schemes are:

1. **Raw material assistance:** The Small Industries Development Organization used to provide help in getting the raw materials both at Central and State level. Now the District Industries Centers are responsible for providing Scarce and controlled raw materials. Now it is essential for the small scale units to acquire registration certificate from the concerned directorate of industries. NSIC is also assisting SSI units in
   a) Supplying on off-the-shelf basis.
   b) In importing raw materials.
   c) Providing scarce raw materials on priority.
   d) Supplying through NSIC depots/godowns.
2. **Assistance for obtaining plant and machinery:** If an entrepreneur has a good financial position he can purchase machinery or plants on his own otherwise he can purchase it from NSIC or state level Small Industries Corporations. They provide assistance in the form of:
   a) Machinery and equipment (Hire-purchase scheme):

   Supply of native and imported machinery (less than Rs. 3 crores including the value of the machinery already installed). This is mainly designed for women entrepreneurs, physically challenged and weaker sections.

   b) Machinery and equipment (lease scheme):
   i. For technology up gradation and diversification in SSIs 100% finance is provided.
   ii. Tax rebates are provided on annual rentals.
3. **Technical assistance:** NSIC has set up Technology Transfer Centers (TTC) at Okhala (Delhi) for the technology up gradation. The services available for the industries are as follows.
   a. Information distribution on technology, business and investment opportunities.

b. Finding suitable business partners and global identification of technology.

c. Training, Consultancy and evaluation of technology

d. Conducting technology transfer programs as technology missions/delegations.

e. Making available the reference library publications

f. Establishing a network for the access of database.

The SIDO (Small Industries Development Organization) also provides technical assistance to the existing small industries and entrepreneurs with the help of small industries service institutes. These institutes consists of experts in several fields like electrical, chemical, engineering, blacksmiths, leather technology, glass and ceramics, wood, sports goods etc… these groups will visit the small industries and provide them technical assistance.

4. **Marketing assistance:** The success of the small industries mainly lies in marketing of their products. For this assistance they have to get themselves registered with NSIC. The objectives of NSICs marketing program are:

a) Make sure that there is a good margin for producers of goods.

b) Standardization of Products

c) Products should be marketed under common brand name.

d) Publicizing SSI products.

e) Supplying sophisticated machinery and equipment for technological upgradation.

SSIs registered under the single point registration scheme with NSIC will get the following facilities:

a) Issue of tender forms without any cost.

b) Advance notification of tenders issued by DGS & D.

c) Exempt from the payment of earnest money.

d) Security deposit waiver up to the monetary level for which the unit is registered.

e) Issuing of competency certificate in case the value of an order crosses the monetary limit after due verification.

5. **Government Store Purchase Program Assistance.** SSIs which are eligible (those competent to perform government orders) are registered with single point registration scheme on NSIC. Bonafide SSI units registered with Directorate of Industries / District Industries Center are listed under this scheme and are the main sources of supply to the Central and State Governments, public sector undertakings and others.
   a) Issue of tender forms without any cost.
   b) Notification of tenders in advance issued by DGS & D.
   c) Exempt from the payment of earnest money.
   d) Security deposit waiver up to the monetary limit for which the unit is registered.
   e) Issuing of competency certificate in case the value of the order crosses the limit of monetary after due verification.

Along with this these units also get other conveniences such as consideration of cost up to 15 % on the merit over the cost quoted for large units and procurement as per the reserved list.

Industrial Estates:

The main hurdles in small scale industries development is they are not able to command by their own, and couldn't afford facilities like land, power, and transport etc… A program for setting up of Industrial Estates was started in 1955 to encourage the entrepreneurs to set up small industries. This program was launched in India by the recommendations of International Planning Team (Ford Foundation Team) to promote quick development of small industries and also for the decentralization of industries in rural, semi-urban, and backward areas.

Meaning:

"An Industrial Estate is a group of factors constructed on economic scale in suitable sites with facilities of electricity, transport, roads, bank, canteen, and drainage system and provided with special arrangements for technical guidance and common business facilities." The program consists of the following facilities for entrepreneurs.

a) Acquiring correct land and development.

b) Establishment of factory sheds.

c) Basic infrastructure conveniences like water, electricity, transport, banks, canteen, roads etc…

Till 1979, 796 Industrial Estates were established with the help of Indian Government in throughout the country. And then the process was given over to the State Industrial Development Corporation (SIDCs). This helped the state government to be a part of Industrial Estate development.

Even private entrepreneurs have developed Industrial Estates and have sold them. The Government has even taken steps to develop Industrial Estates in rural areas for regional development but the private developers have made them only in metropolitan cities to get more profits. The Peenya Industrial Estate in Bangalore is an example of Industrial Estates helping a lot of small scale industries in the city.

Roles or objectives of Industrial Estates:

1) Providing accommodation for plant and machinery.
2) Offer facilities like roads, power supply, water and drainage.
3) Providing facilities like banks, post office, canteen, transport, steelyard, first aid etc.
4) Providing facilities for testing, laboratory and library facilities for better management of business.
5) Establishing small and medium scale industries in the country.
6) Decentralization of industries in rural and backward areas.

7) Motivating entrepreneurs in congested areas in the city to move to the industrial estates for better growth and facilities.
8) Saving cities from pollution by moving industries to the industrial estates which are usually away from the city.
9) To establish Industrial Estates where there is a scope of development.
10) Because of Industrial estates the industrial activities will run very easily along with maintaining the cost effectiveness with the help of neighboring industries.
11) The business oriented families can hire sheds for their activities and keep their family business running on.
12) Small size estates can be developed in rural and backward areas. For ex: small cottage industries can be established for the areas where industries related to bamboo work, coir work, or agricultural activities take on.
13) Enhancing entrepreneurship by developing an environment to run the industries in industrial estates.

Types of Industrial estates:

Industrial estates are mainly classified in the following types.

1) On the basis of functions:

a) General purpose or composite industrial estates:

These are mainly meant for providing accommodation facilities to small industries. Most of the industries in India are of this type.

b) Special purpose of industrial estates:

These types of industrial estates are mainly meant for particular industry units, which are inter-dependent.

2) On the basis of ownership:

a) Government Industrial estates: In order to encourage industrialization most of the industries are of this type. These falls under the ownership of the Government only and the state government has established these estates in several cities and towns.

b) **Private Industrial Estates:** Private owners have established theses industrial estates for small scale industries and they let them on rent. These might be supplementary for big private or public sectors.

c) **Co-operative industrial estates:** Co-operative sectors have established these industries. In Maharashtra and UP there are a lot of co-operative sugar factories. There is a necessity of development of such industries under co-operative sector for maintenance and facilities like supply of spheres.

3) **Other categories of Industrial Estates:**

a) **Ancillary Industrial Estates:** Here in these types of estates only small scale industries are under shelter which are supplementary and produce parts or spares for large industries. These are generally established near the large parent unit.

b) **Functional Industrial Estates:** These are usually the collection of the industries which manufacture the same product. These estates are established for ceramics, food preservation, sport-goods, electronics, leather goods etc…

c) **Flatted factory estates:** These are nothing but huge multistory buildings built in metro cities to provide place to industrial units, usually used for industries which manufacture light weight goods using simple machinery tools. They help to save space.

Working of Industrial Estates in India:

The government of India has established 796 industrial estates up to 1979 in different parts of the country as it was a centrally sponsored program. And there after the program was handed over to State Industrial Development Corporation (SIDCs). The Government of Karnataka has established the Karnataka Industrial Areas Development Board (KIADB) and Karnataka State Small Industries Development Board (KSSIDC) for the development of industrial estates in the state.

A lot of extra facilities are provided in different states to entrepreneurs some of them include subsidies on rent for factory accommodation, shed allocation on hire-purchase and also outright sale, concessions on water and power charges, rebate on sales tax and octroi duty are also provided.

4.4 Export Oriented Units-Fiscal and Tax Concessions available

4.5 Role of select agencies in Entrepreneurship Development in the country.

The Government of India considering the importance of Small Scale Industries and Enterprises and Business, has since the 1950 established a number of institutions to promote Entrepreneurship Development in the country. The major institutions are discussed in the following paragraphs.

4.5.1 Role of District Industries Centre (DIC)

District Industries Centers (DICs)

With the objective of providing integrated framework at the district level for promotion of small-scale industries in rural areas, the District Industries Centers (DICs) were established on May 8, 1978. The DICs can be viewed in as interacting agencies with the entrepreneur at the district level. To the entrepreneurs, the DICs act as one stop shops where the services and support is delivered under one roof. The various schemes of the Central and State Governments along with the registration of small industries is done through DICs. They also implement the SEEUY/PMRY for employment generation. State Governments manage the administrative aspects of DICs.

Functions:

The main function of DICs is a promotional and developmental one. In order to render this service they will have to fulfill the following other functions namely

1) Identify market as well as industrial surveys, identify important and profitable product lines and then provide information and advice to the potential entrepreneur.
2) To prepare an action plan which will help in the implementation of the projects and schemes identified.
3) To work with the entrepreneur and assess the requirement of raw materials, identify the raw materials, identify their source, help the entrepreneur procure the material, procurement of machinery, and procurement of imported machinery if needed
4) To help the entrepreneurs in procuring market related information, to help them market their products and to help them in export promotion of their products
5) To undertake appropriate product development in small industries.
6) To function as technical wings of DRDA in implementing IRD and TRYSEM programs.
7) Preparing and keeping the abstracts or model project profiles for the reference of entrepreneurs.
8) Providing guidance for suitable loan amount and documentation.
9) Helping entrepreneurs for availing things like land, shed, equipment, furniture, tools and fixtures.
10) Describing the merits of the project-proposals received from entrepreneurs.
11) Assisting entrepreneurs in acquiring required license, clearance and permits.
12) Assisting the entrepreneurs in marketing their products and assess the chances of ancillarization.
13) Conduction product enhancement work suitable to small industry.
14) Helping entrepreneurs in sorting out their problems related to bank accounts, submission of monthly, quarterly, and annual returns to Government departments.
15) Conducting artisan training programs.

16) To act as a middle agency for the district for executing PMRY (Prime Minister Rojgar Yojana)

17) Helping the specific training organizations to conduct Entrepreneurship Development Program

    Till March 31,1988,422 District Industries Centers (DICs) have been set up covering 431 districts of the country.

4.5.2 Small Industries Service Institutes (SISIs) now known as MSME Development Institute.

The Small Industries Services (SISIs) were set up for the provision of consultancy and training to small entrepreneurs. The Industrial Management Training Division of the DCSSI's office coordinates the activities of SISI. Across the state capital and other places all over the country, over 28 SISIs ad 30 Branch SISI's have been set up to ensure that they provide their consultancy services to small scale units effectively.

The main functions of SISIs include

- Working as an interface between Central and State Governments
- Render various technical support services
- Conduct entrepreneurship development programmes in various sectors
- Bring forth promotional activities

  Moreover, there are other areas as well where SISIs render assistance
- Economic Consultancy/ Information/EDDP Consultancy
- Trade and market information's
- Project profiles
- State industrial potential survey
- District industrial potential surveys
- Implant studies
- Regular and periodic workshops
- Regular training sessions

4.5.3 Entrepreneurship Development Institute of India (EDII)

The Entrepreneurship Development Institute of India (EDI), was set up in the year 1983 as an autonomous body which is sponsored by the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and State Bank of India (SBI). EDI Campus is built on twenty three acres of land which has been pledged by the Government of Gujarat.

EDI has helped in setting up twelve state-level entrepreneurship development centers and institutes. One of its greatest achievements is to take entrepreneurship to large number of schools, colleges and management institutes by including entrepreneurship in their curriculum.

University Grants Commission appointed EDI as an agency to develop curriculum on Entrepreneurship because of its expertise in the field of entrepreneurship.

EDI's success is led by its strong sense of commitment. Efforts made my EDI to develop entrepreneurship by conducting training programmes and sharing resources in the international arena have helped it to get support from World Bank, Commonwealth Secretariat, ILO, British Council, Ford Foundation, European Union and other renowned agencies.

The Ministry of External Affairs also assigned tasks to EDI to set up Entrepreneurship Development Centers in Cambodia, Lao PDR, Myanmar and Vietnam which has been successfully done by the institute. At present the institute is working towards setting up of Entrepreneurship Development Centers in Uzbekistan and Kazakhstan.

EDI has a belief that entrepreneurs need not be born they can be developed through well visualized and directed activities. EDI has the following objectives.

a) Boost the supply of trained entrepreneurs by training.
b) Create multiplying effect on opportunities for self employment.
c) Enhancing managerial abilities of small scale industries.
d) Contribute to the distribution of business ownership, expanding

the social base of Indian entrepreneurial class.

e) Being a part in creation and diffusion of the new knowledge and insight into entrepreneurial theory and practice by research.

f) For entrepreneurship development expand the supply of motivators.

g) Play a part in institution building efforts.

h) Providing a supporting environment to facilitate potential and existing entrepreneurs to establish and manage the enterprises.

i) Promote small enterprises at the rural level.

j) Spread the spirit of entrepreneurship amongst youth.

k) To achieve the above objectives collaborate with same kind of organizations in the country and other developing countries.

Functions of EDI:

a) Promoting the entrepreneurship process throughout the country.

b) To provide training for trainers for the officers of promotional agencies, banks and other trainer motivators of the institutes of Entrepreneurship development (IEDs), NGOs and Centers for entrepreneurship development.

c) Conducting product process EDPs, REDPs and EDPs.

d) Providing professional help to several institutions for their entrepreneurial development activities such as ICICI and SBI.

e) Conducting conferences, seminars, workshops, to promote entrepreneurship development.

f) To behave as the national resource institution committed to investment, promotion, entrepreneurship education, guidance and research.

g) To discuss with the developing countries and help them in capacity building programs for industrial development.

h) Conducting cross-cultural programs to promote entrepreneurship development in small and medium enterprises of India and Europe.

i) Conducting distance education system which provides an opportunity for open learning.

EDI has established Centre for Research in Entrepreneurship Education and Development (CREED) to act as an important bond between theory and practice in entrepreneurship field with focus on theoretical underpinning.

With the help of this centre, EDI

a) Supports internal research major areas as far as entrepreneurship is concerned.
b) Catalyses the process of networking researchers and institutions in the field of entrepreneurship.
c) Provides an opportunity for the new comers in research to use intellectual and other resources at the centre so that they contribute a valuable knowledge on entrepreneurship.
d) Promotes collaborative research programs with institutions and individuals outside the centre.
e) Distributes and reveals several research make outs among planners, policy-makers and academicians and
f) Conduct colloquies, seminars, and workshops.

4.5.4 National Institute of Entrepreneurship and Small Business Development (NIESBUD)

National Institute of Entrepreneurship and Small Business Development (NISEBUD) was established with the objective of coordinating and facilitating research and training in entrepreneurship development and to impart specialized training to various categories of entrepreneurs and also to act as a forum for interaction and exchange views and ideas between various agencies, this apex national level institute was set up at New Delhi in 1983.

The Governing Council whose Chairman is the Minister of MSME gives the policy, direction and guidance to the Institute. The Executive Committee consists of Secretary (Micro, Small & Medium Enterprises) as its Chairman and Director General of the Institute as its Member-Secretary. This committee executes the policies and decisions of the Governing Council through its whole-time Director General

The institute has been established for the promotion and development of micro, small and medium enterprises and undertakes following activities to enhance its competitiveness.

- Conducting and organizing training programmes for the development of entrepreneurship.
- Field tested strategies and methodologies are evolved and standardized for the development of entrepreneurship to suit the respective location and various target group of individuals, clusters and groups.
- Collaborating with various institutions and organizations which are involved in the development of entrepreneurship and organizing and conducting training and research activities for the same.
- Identifying the need and providing training to the members of various Governments/ non-governmental organizations engaged in supporting and promoting entrepreneurship.
- Gathering and analyzing information required for formulation of policies and implementing programmes relating to entrepreneurship and industrial development.
- Identifying, designing and conducting training and offering services needed for improving the management, productivity and the technology used be existing entrepreneurs.
- Documentation and dispersion of information relating to entrepreneurship and (industrial/ business) enterprise development.
- Preparation and publication of information material related to development of entrepreneurship.
- To provide colloquium for interaction and exchange of views and experiences and practices among Government/ non-governmental agencies, associations of enterprises and individual entrepreneurs through seminars, workshops, conferences, etc

- To conduct researches and study the problems to procure knowledge for accelerating the process of development of entrepreneurship.
- To renew and revitalize entrepreneurship, and upgrade enterprise development, self-employment and setting up of new industry/ business
- Promoting the culture of entrepreneurship by evolving , designing and using various media.

4.5.5 National Entrepreneurship Development Board (NEDB)

The national entrepreneurship development board is an apex body under the MSME (Ministry for Small and Medium Enterprises).

The main objective of NEDB is to provide financial assistance for conducting entrepreneurship development programs in educational institutions thus encouraging new enterprises to emerge. NEDB also provides financial assistance to research and academic institutions to undertake research projects which will enhance the understandings and the development of small, medium and micro enterprises. The studies could be in the area of SME policy, market research for specific products, area studies, growth, and sick small and medium industries.

NEDB has initiated establishment of business incubators in education institutions by funding EDPs (Entrepreneurship Development Programs) and facilitate establishing new enterprises in the incubators of educational institutions.

NEDB has been conducting programs related to cluster groups. Cluster is generally identified by the product (or product range) and the place where it is located. A complete industry or a sector (like the leather sector) cannot be referred to as a Cluster.

It is on the basis of the availability of the basic raw materials, etc. required for setting up of a particular industry that certain States and districts are known for a specific group of industries. For example, the knitwear cluster of Ludhiana, Gems and Jewelry clusters of Surat and Mumbai, clusters of Chennai, Agra and Kolkata for leather and leather products, etc

4.6 Summary

Small and medium business has received importance in the frame of Indian planning because they provide employment opportunity, help in equitable distribution of income and wealth, mobilize the local resources to the maximum possible extent and they indirectly lead to uniform growth. Government realizing that the Small and Medium Business are the vehicle of economic growth, emphasized the there needs to be a legal support to Small Enterprises. The Government gave various industry policy resolutions to support small scale industries. The policy framework comprises of technological up gradation , infrastructure support, human resource development, de-regulation of business environment, market assistance for SSIs.

With the objective of providing integrated framework at the district level for promotion of small-scale industries in rural areas, the District Industries Centers (DICs) were established

There are various incentives and concessions given by the Government. They are the financial incentives, tax concessions, exemption from excise duty etc. The Government also provides assistance in terms of raw material assistance, assistance in purchasing plant and machinery, technical assistance, marketing assistance, purchase program assistance and all. The Small Industries Services (SISIs) were set up for the provision of consultancy and training to small entrepreneurs. The Entrepreneurship Development Institute of India (EDI), was set up in the year 1983 as an autonomous body which is involved in promotion of entrepreneurship. And National Institute of Entrepreneurship and Small Business Development (NISEBUD) was established with the objective of coordinating and facilitating research and training in entrepreneurship development and to impart specialized training. Therefore, the main aim of these agencies is promotion and development of entrepreneurship in India.

4.7 Questions

Self Assessment Questions (Fill in the Blanks)

1. The main thrust of the New Small Enterprise Policy was to enhance the support to ………………………….. so that it could provide greater impetus to growth of the economy.
2. The Government has taken steps to support small scale sector through policies d……………………………………………………………………
3. Incentives mainly include three types…………………….., ……………………….. and ………………..
4. The ……………………………………………..can be viewed in as interacting agencies with the entrepreneur at the district level.
5. The main objective of ………………………………..is to provide financial assistance for conducting entrepreneurship development programs in educational institutions thus encouraging new enterprises to emerge.

Terminal Questions

(2 Marks Questions)

1. What is IPR?
2. What is the meaning of incentive?
3. What are financial incentives?
4. What kind of assistance is given by the Government to Small Scale Industries?
5. What do you mean by industrial estates?

(5 Marks Questions)

1. Write a note on District Industries Centers.
2. Write a note on Small Industries Services Institutes.
3. Write a note on Entrepreneurship Development Institute of India.

4. What are the functions of EDII.
5. Write a note on National Institute of Entrepreneurship and Small Business Development.
6. Write a note on NEDB.

(14 Marks Question)

1. Briefly describe the need to frame policies. What are various policies of Central Government for SSIs?
2. Karnataka is hub of industries in the country. Do you agree? Support your answer. What are various policies framed by the State Government. For small scale industries?
3. Discuss Industrial Policy-2001 of Karnataka. Do you think that every state should frame its policies separately? Why?
4. What do you mean by incentives? What are financial incentives and tax concessions?
5. Discuss the role of various agencies in entrepreneurship development in the country.

4.8 Answers

Self Assessment Questions

1. Small Scale Sector
2. Financial assistance, incentives, subsidies, and technology
3. Concessions, Subsidies and Bounties.
4. District Industries Centers
5. NEDB

(2 Marks Questions)

1. refer to section 4.2
2. refer to section 4.3
3. refer to section 4.3
4. refer to section 4.3
5. refer to section 4.3

(5 Marks Questions)

1. refer to section 4.5.1
2. refer to section 4.5.2
3. refer to section 4.5.3
4. refer to section 4.5.3
5. refer to section 4.5.4
6. refer to section 4.5.5

(14 Marks Question)

1. refer to section 4.2
2. refer to section 4.2
3. refer to section 4.2
4. refer to section 4.3
5. refer to section 4.5

MODULE - 5

Failures – Reasons and Suggestions for Improvement

MODULE - 5
Failures – Reasons and Suggestions for Improvement

Structure

Learning Objectives

On the completion of this module you should be able to understand:

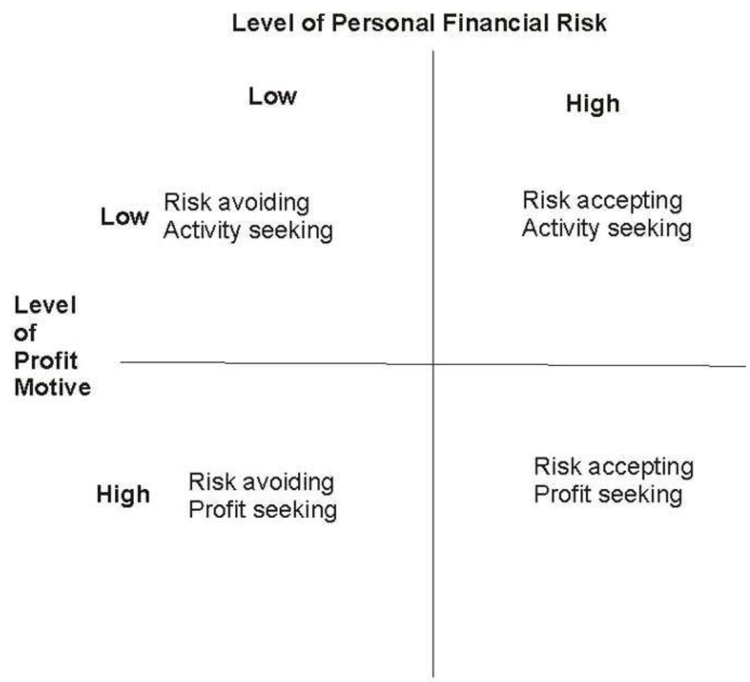
- The reasons for the failure of an entrepreneur
- The preventive measures to be taken for the sickness and the remedies for industrial effectiveness.

5.1 Introduction

While going through literature dedicated to entrepreneurs, we experience the brighter part of entrepreneurship in terms of success rewards and achievements. However there is a little literature about why entrepreneurs fail or it is also known as the dark side of entrepreneurship. In this module we shall deal with the thoughts and processes of an entrepreneur which could lead to failures. Peter F. Drucker in his book "Managing in the Next Society" has mentioned four entrepreneurial pitfalls which are discussed in this module later. In this module the pitfalls in the entrepreneurship can be studied as pitfalls in an entrepreneurial process and as well as pitfalls in an enterprise also which leads to failures as discussed in the module later wherein the definition of sickness as per RBI and other details are discussed.

5.2 Why do Entrepreneurs Fail?

Why entrepreneurs fail? Is discussed as below. The aspect of entrepreneurial perspective that has a destructive source and exists within the energetic drive of the successful entrepreneur. There is risk involved in every business venture begun or bought. The higher the reward, entrepreneurs face greater risk. Attempting to illustrate the risk-taking activity vs. the profit/activity seeking activity of entrepreneurs, Thomos Moroy and Robert Folger developed a topology of entrepreneurial styles which is presented below:



Source:- Adapted from Entrepreneurship –A Contemporary Approach (Pg 104- 108)

Entrepreneurs come in different forms but there is one common factor that differentiates them from the rest of us and that is the willingness to take risk for the sake of what they believe in be it enterprise, a new venture or activity. They have the quality to take face that lack of surety, and clarity.

The types of risks that entrepreneurs face can be grouped in to four basic areas.

Financial risk: In most of the new ventures or businesses, the entrepreneur invests all his savings and personal resources. These personal savings or resources may be lost if the business or enterprise fails. Sometimes however might due to company obligations pledge more than his or her personal networth. This exposes the entrepreneur. Many people are unwilling to take this risk which may put them at the risk of losing the job.

Family and social risk :Starting a new venture or business calls for a lot of time. As a result of which, the entrepreneur may not be able to devote quality and quantity time to the family. The entrepreneur may not be able to spend time with children and hence may permanently cause emotional scars which are difficult to rectify.

Psychic risk: Homes can be built, spouse, children and friends usually adapt, however the well-being of the entrepreneur is often at stake while undertaking an entrepreneurial venture. When businesses or entrepreneurships fail, at times some of the entrepreneurs fail, they may suffer a psychic set back from which they find it difficult to bounce back.

Stress and the entrepreneur

Entrepreneurs set certain goals. Some of the common ones include independence, wealth and work satisfaction. But in the process of achieving this, entrepreneurs also end up paying a high personal price in terms of health. Research studies show that entrepreneurs who were surveyed had back problems, indigestion, insomnia or headaches. Entrepreneurs were willing to pay the cost for the goals that they set for themselves.

Stress depends on the differences between expectations and personality demands. Often entrepreneur, short of staff ends up playing multiple roles of a sales person, negotiator, production facilities personnel, operations personnel and management personnel etc., this costs of a heavy toll on his health. The workload becomes heavy. Moreover, constant communication is an essential feature of an entrepreneur's life wherein he/she constantly communicates with customers, suppliers, regulators, lawyers and accountants which may become stressful.

Further, the entrepreneur to be critically aware of his personality type, which can result in stress. People with "Type A" personality are said to be those who are impatient , demanding and overstrung.

- There are a number of other features that you can associate "Type A" personalities with:
- For example, traffic jams tend to frustrate Type A people
- They are basically workaholics
- They believe that they are here to work rather than the other way round that work is a part of life.

Sources of stress: Some of the causes of work apart from what we have already delineated involve being lonely, immersed in business, people problems and the need to achieve.

Loneliness: While entrepreneurs are surrounded by people such as employees, customers, lawyers and accountants, they are rarely in contact with friends and colleagues and other family members with whom they can confide, discuss and derive solace. Moreover, they also do not participate in social gatherings unless there is a business benefit.

Immersion in business: Working long hours, entrepreneurs are literally married to their business and hence do not have any time for leisure activities like going on a vacation, engaging in sports activities.

People problems: Working with customers, employees, partners, bankers and professionals, people's problems end up frustrating entrepreneurs in turn. Often entrepreneurs spend a lot of time trying to get lazy employees to execute their functions efficiently. Often entrepreneurs are perfectionists and in this process they expect the best from their employees and if this is not delivered well, they can get frustrated.

5.3 The Four Entrepreneurial Pitfalls

In the book "Managing in the Next Society", Peter Drucker , the world renowned management expert has identified four entrepreneurial pitfalls .The primary one is that often entrepreneurs reject success. Secondly, they do not pay close attention to cash flow. The third pitfall is that the entrepreneur outgrows his management base when business grows rapidly beyond expectations. The fourth pitfall is that entrepreneur begins to puts himself before his business is a success. Now, let us study each one of them in detail.

1) **Entrepreneurs reject success:** The first of the pitfalls comes in when the entrepreneur has to face the fact that the new product or service is not successful because he thought that it would be successful in that market but the reality showed otherwise. Many entrepreneurs insist that they know the market better. Infact entrepreneurs go one step further. They reject success. In the sense that they are so convinced of their product's success in one market, they fail to see its success in a totally different market. He does not accept the success in the totally new and unexpected market and rejects it and keeps awaiting for success to come by in the market that he thought and in turn fails to grab the opportunity in the market he never thought of.
2) **Entrepreneurs don't realize the importance of cash flow** This leads to pitfall two, which is that entrepreneurs often see profit as the most important component over cashflow as the success to their business. On the other hand, it is very important to understand that cash flow is the most important component to keep a business going. Growing bodies need to be constantly fed, and a business that grows fast eats up cash too. As a consequence, it goes without saying that you have to make constant investments just to keep even .If a firm has six month's to one year's cash reserve to keep it going, then the company is said to be in favorable terms. Entrepreneurs make their second mistake here. They focus only on profits and do not ensure that there is enough cash flow to keep the business running.

3) **Entrepreneurs get caught in a management crunch :** When business outgrows, the entrepreneur gets extremely busy. The entrepreneur outgrows production facilities. He / she outgrows management capabilities. While he sees his profit margins, he does not see that he is outgrowing his management base. This is expected of even in a normally growing business. Hence, one needs to prepare a contingency plan take adequate steps to handle this management crunch.

   In the beginning, the entrepreneur does everything by himself. He has helpers but not colleagues. Then everything goes wrong. Customers don't pay. Deliveries are missed. Quality drops. All this is prevented by drafting a management team. Do a SWOT (Strength, Weakness, Opportunities and Threats) analysis of the potential team members, place them in the right jobs and equip them with the right assistant personnel to perform efficiently. You may also give him some complementary jobs that fit his core competencies. In this manner the entrepreneur will be able to efficiently serve the customers.

4) **Entrepreneur thinks he is the best:** Sure. The business was the entrepreneur's idea. It was his brain child. He incubated it and worked extremely hard all these years to build up the enterprise. And hence, he also thinks that he and only he knows what is best for the organization. Infact it is hard for him to sit back and face this harsh reality, "what does the business require at this stage?", "Do I have those qualities?" if the answer is a "No", he has to face up to the reality, step aside and get in a new horse man who takes the reins and take the business forward. This he may realize himself or needs to be told by an external source, where his lacunae lies and then the entrepreneur.

5.4 Preventive Measures for Industrial Sickness and Remedial Measures for Improvement of Industrial Effectiveness

Sickness is a major problem of Small Scale Industries in all countries of the world. Sickness of Small Scale Industries is a matter of grave concern because it negatively affects owners, employees, creditors and suppliers and it also leads to wastage of national resources and social unrest. The funds which are loan able of financial institutions gets blocked in sick industries which further leads to wastage of resources and affects the growth of an economy. Both traditional industries like cotton textiles, jute, sugar and modern industries like engineering, chemical, rubber, cement, electrical and paper are afflicted with sickness.Therefore it is very important to detect the sickness of an industry at an initial stage and take preventive and remedial measures.

Meaning and Definition of Industrial Sickness

Sickness is a cause of great concern in small scale industries. There have been changes in the definition of sickness in SSI over the period of time. The Reserve Bank of Indiahave been instrumental in appointing committees to look into the matter of sickness in SSI. The Working Group on Rehabilitation of Sick Units set-up by the RBI (Kohli Committee) gave the definition of sickness.

A small scale industrial unit is considered sick when:

1) If any of the borrowal accounts of the unit remain sub-standard for more than six months i.e., principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year will remain unchanged even if the present period of classification of an account as sub-standard is reduced in due course;

   Or

2) There is erosion in net worth due to accumulated losses to the extent of 50 percent of its net worth during the previous accounting year; and
3) The unit has been in commercial production for atleast two years.

Criteria to identify Sickness / Incipient Sickness – during the third census (2001):

To identify whether a unit is sick, outstanding sources of the loan both institutional and non institutional, the delay in institutional loan for more than 12 month and erosion to the extent of 50% of the net worth is taken into consideration and this information was collected in the third census. Kohli Committee gave the definition to measure sickness on the basis of the above information. The continuous decline in the gross output compared to the previous two financial data collected is an indicator to measure the incipient sickness. In the third census the following criteria was adopted to measure the sickness of the unit:-

I. Constant decline in gross output as compared to previous two financial years;
II. Lingering in repayment of institutional loan, for more than 12 months and
III. Deterioration in the net worth to the extent of 50 percent during the accounting year.

Sickness/initial sicknesses being a primary question, enumerations were asked from the entrepreneurs of the units fulfilling at least one of the above criteria, and have not been running adequately.

Causes of Industrial sickness:

The reasons for industrial sickness are divided into two categories

i. External and
ii. Internal

External factors are the factors which are out of control and which originate outside the unit. Internal factors are in control and they originate inside the organisation.

External causes

1) The amendments in industrial policies of the Government from time to time eg, taxation, industrial licensing, policies relating to imports and exports etc.
2) Insufficient and untimely availability of inputs like raw materials, power, transport and skilled labor etc.
3) High manufacturing costs and lower sales and revenue. Lower revenue may be no control over prices of output and high manufacturing cost may be due to inflation
4) Fall in demand for the product
5) Changes in consumer preferences
6) Trends of recession in the economy
7) Low Cost cheap products available in the market
8) Repeated industrial strikes and labor unrest
9) Financial resources storage like working capital
10) Fluctuations in foreign exchange leading to bad effect on the price of imported machinery and raw-materials
11) Delay in the procedures relating to finance / licensing / other controlling or regulating authorities, i.e., Banks, RBI. Financial institutions, Government departments, licensing authorities, etc.
12) Lack of ability of big industries to give work load to smaller units
13) Strong Competition from large business houses with cheaper products which has adverse impact on the turnover of small scale entrepreneurs.
14) Inability of Small-scale units to adopt changes in the economic, social and political scenario of the country and the world
15) Regular technological advancement in the industry
16) Instability in politics both at domestic as well as international
17) National disasters like drought, floods etc.

Internal causes

1) Selection of wrong product, process layout.
2) Wrong estimation of the cost of project
3) Out dated manufacturing
4) Wrongly selected project site, which resulted in increased transport cost, etc.
5) Excessive fixed assets investments
6) Quality of production affected by the defective working of plant and machinery
7) Wrong choice of technology
8) No flexibility of fixed assets, mainly machinery for utilization in the diversified manufacturing setup
9) Lack of effective management, wrong managerial decisions, lack of control and absence of control on the main areas of operations

Some of the examples of mismanagement are as follows:

A. Production management:

i. No attention towards the maintenance management leading to regular break down and lower capacity utilization
ii. Inadequate inventory and material management resulting in high inventories and wastage
iii. Lack of scientific and efficient quality control system
iv. Wrong choice of technology
v. Inadequate emphasis on research and development

B. Marketing management:

i. Wrong product mix
ii. Wrong demand estimation for the products
iii. Inadequate promotion of sales

iv. Limited number of buyers
v. Wrong pricing policies; and
vi. Inadequate product planning to face obsolescence.

C. Finance:

i. Insufficient capital source
ii. Mismanagement of working capital, resulting in inability in meeting the day-to-day needs of business
iii. Inadequate utilization of funds.

D. Personnel:

i. Lack of skills amongst workman and lack of interest of key partner or owner.
ii. Wrong wage, increment and promotion policies
iii. Lack of industrial relations
iv. Inadequate manpower planning, and
v. Not enough motivation in the organization.

10. **Management information system:** The management and the lending institutions are not properly informed about the actual conditions in business and therefore are not able take remedial measures in time in the absence of such system.
11. **Conflict among partners:** This is a common problem in small units. The business partners start off with great zeal and enthusiasm but end up in disharmony and discord.
12. **Problem of incompetency in entrepreneurs:** The entrepreneur may not possess basic technical knowledge required for the venture. No knowledge of the product, lack of business acumen etc.
13. **Problem of labour:** Severe labor problems sometimes result in frequent strikes, lockouts and even closure of the units. These problems may emerge from differences with management over the issue of wages, bonus, retrenchment, inter-union rivalry etc.

Such problems may cause sickness if not tackled in time.

14. In order to avail the various concessions given to sick concerns by the Central Government or State Governments most of the small scale units would like to declare themselves sick.
15. Failure in implementation of modernization programme in the units and avoiding technological up gradation causes sickness.

Consequences of industrial sickness:

1) Unemployment and industrial unrest due to workers agitation and strikes may be the immediate effect of industrial sickness.
2) Industrial peace and co-operation is threatened because of the loss of jobs which leads to social problem to millions of people.
3) Threatened industrial environment which may lead to industrial losses and setback of production in number of units.
4) National loss might result in terms of capacity wastage; idle inventory, loss of revenue to Government and setback to developmental activities.
5) It affects the competitiveness of the industry not only within the country but also in the international markets.
6) Repayment of loans, and interest on loans is not made to financial institution as a result they face losses. Long time period and problems are faced while recovery of overdue.
7) Investment made in sick units by the entrepreneurs becomes completely dead. Potential entrepreneurs and investors are disheartened and get aggravated. The climate of the industry becomes non-conductive to industrial development.
8) Sickness in one unit is expected to affect negatively a number of other units. Since an industrial unit is linked up with other industrial units through backward and forward linkages.
9) Considerable investment in sick units causes national loss. There is wastage of scarce resources due to decline in production and blocking up of variable capital.
10) The range for tax revenue to the Government is largely

reduced, when a large number of units become sick. A variety of programmes of social and economic development in the country are affected due to shortage of tax revenue.

11) Machinery, equipments and buildings face rust when they are idle. They deteriorate and additional expenses may be needed for restoration.

12) The employees lose their bargaining power and get confused wherever they go in search of jobs. It is difficult to water down the disheartenment of the employees.

According to the Planning Commission:

"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 adequate social security benefits, this is accepted as a normal feature of industrial scene. Such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce. Loss of employment and production in an economy suffering from chronic unemployment and shortages is a very serious matter".

Preventive Measures:

SSIs are the backbone for achieving unrelenting economic growth for a promising economy like India. In the interest of economy timely action needs to be taken to protect the SSIs. The urgent need is to focus on the troubles of the SSIs to facilitate them to face the rising challenges, in view of the shifting economic state of affairs.

To advance the effectiveness of SSIs and to avert the sickness in small scale units, the following measure can be taken:

1) The first and primary preventive measure to spot and condense the industrial sickness is to identify and detect the sickness at the initial stage.

2) The owners should control the internal problems in the unit.

With the help of parent industry engineers or consultants, the problems could be attended by analyzing them and getting them solved on a sustainable basis.

3) By taking the help and guidance of the parent industry engineers or consultants, the poor work load problem can be attended by doing diversification.

4) In an economy in which new markets with innovative products or services should be discovered and greater emphasis should be put on realistic planning.

5) Effectively use the market information in business operations. SSIs must take advantage of the services of internet particularly in marketing their products.

6) For product improvement, quality improvement, and cost reduction etc, more thrust should be given to research and development. Professionalism in management should be promoted and frequent training should be given to update entrepreneurial skills and so on.

7) Good relations should be maintained with Government officials, banks, financial institutions vendors and customers so that small deviations and delays in transaction do not cause problems.

8) The funds and facilities should be allocated on priority basis in view of limited resources, such that the main business activity is attended on continual basis.

9) To facilitate a smooth functioning of the SSI activities the infrastructure facility should be improved by the state.

10) To keep away from labor unrest and strikes, workers non-cooperation or any other problems should be attendedto quickly and timely.

11) To strengthen their competitive edge, the modernization of plant is of utmost importance at present among the SSIs and for which the Government should assist by providing enough finance at liberal terms.

12) To get expected orders and also undertake constant market research, the SSIs must give attention to sufficient marketing

measures with the probable buyers.

13) For regular publicity and research the products of SSIs need to be widely advertised in the media.

14) To reduce the cost of working capital, it is very important that SSIs familiarize themselves with inventory control techniques

15) BIFR (Board of Industrial and Financial Reconstruction) is referred if the industrial sickness cannot be solved by the owners. Then efforts are made to revive the industry by

    a) Making arrangements of funds,

    b) Making changes in the management structure,

    c) Making arrangements for acquisitions of mergers.

    Arrangements are made to sell the unit if one of the methods or combination of methods does not work, and then money is distributed among employees and creditors.

16) Any programme on rehabilitation will have to be finalized and attended at a faster rate. Financial packages and non-financial packages should be included in a rehabilitation programme i.e. managerial, marketing, and power, raw materials etc.

17) The rehabilitation programme should have a monthly or quarterly technical and financial auditing to make sure that the resources put in for rehabilitation are properly utilized and the progress is in the preferred track. The programme should be implemented quickly.

18) In order to seize sickness, at the initial stage, banks and financial institutions should occasionally review the accounts of SSIs borrowers and recognize units which are becoming sick or are prone to sickness.

19) The Government of India and RBI should be requested to direct commercial banks and financial institutions to supply information on sickness to the agencies like BIFR implementing the rehabilitation programme to help them to take appropriate action.

20) RBI Guidelines for Sick Industrial Units:

Guidelines for detection of sickness and on time rehabilitation of potentially possible sick units have been communicated and following steps have been suggested and circulated.

a) Detection of sickness at initial stage.
b) Monitoring for accounts quarterly
c) Monitoring of rehabilitated accounts on monthly basis through quarterly review sheets;
d) Forming study teams for conducting techno economic feasible studies.
e) Conducting campaigns for recovery.
f) Bring awareness by conducting SSI workshops, training programmes and seminars to etc.
g) Necessary knowledge to be imparted to entrepreneurs in various functional areas in the course of training programmes, entrepreneurship development programmes (EDPs) etc.

Remedial measures:

Owing to the numerous causes and results industrial sickness was for long considered a social problem in the country. The government has devised various schemes and incentives in order to revive these sick units and help them run smoothly. The Government in collaboration with RBI has arrangements for monitoring and surveying sickness of industrial units. The sick industrial companies Act (SICA) 1985 that provided for the setting up of the board for industrial and financial reconstruction (BIFR), and the establishment of industrial investment Bank of India contains the legislative and institutional framework for dealing with industrial sickness. Some of the measures undertaken by Government of India for revival and rehabilitation of sick industrial units were as follows:

1) Policy framework of the Government:

The policy framework in respect of measures to deal with the problems of industrial sickness for guidance of administrative ministries of Central Government, State Governments and financial institutions was laid down in the guidelines issued in October 1981 (which was subsequently modified in February 1982). Under these guidelines, the administrative ministries in the government were given specific roles to prevent sickness and resort to remedial action in case of sickness in industrial sector which come within their charge. These administrative ministries were asked to survey and monitor sickness and lay down revival and rehabilitation action. In order to prevent industrial sickness early, financial institutions were asked to strengthen the monitoring systems, so that timely corrective action could be taken. To revive and restore the health of the sick units, the financial institutions could even assume managerial responsibility.

In case the banks decided that the sick unit cannot be revived, then banks and financial institutions could take action and act upon their outstanding dues in accordance with the normal banking procedures. Before resorting to action, the banks and financial institutions doing so, they were supposed to report the matter to the Government who was to decide whether some actions (like nationalization or worker's participation in management) could revive the unit. In case the Government deciding on nationalizing the management of the unit could be undertaken by the provisions of the industries (Development and Regulation) Act, 1951. The Government could also consider Steps such as restructuring, merger with healthy units etc by the government to rehabilitate and revive the sick unit.

In case the rehabilitation and revival of the unit was considered not viable, then the government could de-notify the unit resulting in its closure.

2) Sick industrial companies act, 1985:

The objectives of SICA are as follows:

i. Provide maximum employment protection.
ii. Use the funds to the optimum extent.
iii. Production assets to be salvaged.
iv. Releasing the amounts due to the banks; and

v. Replacing efficient machinery in place of time existing time consuming and inadequate machinery for expeditious determination by a body of experts.

The sick industries companies (Special Provisions) act, 1985 governs and rehabilitates only those industries which are engaged in the manufacturer of items included in the schedule –1 of the industries (development and regulation) Act, 1951 but with a few exceptions. All other industrial undertakings which are outside the purview of IDR Act are governed by the rehabilitation Schemes of RBI.

3) Steps taken by commercial banks:

Various concessions were granted by commercial banks to sick industrial units like-

i. Provision of additional working capital facilities in order to help overcome the shortage of working capital faced by such units;
ii. Use reduced recovery rates to recover interest;
iii. Allowing the sick units enjoy a moratorium on payment of interest;
iv. Freezing a portion of the outstanding in the accounts etc…

As regards the small-scale industries, RBI issued guidelines to the banks with a view to ensuring that the potentially viable sick units in small-scale industries sector receive due attention and timely support.

4) Steps for detecting sickness early:

Importance of deducting sickness in incipient stage is crucial as corrective steps can then be taken early and well in time, with this end in view, the Reserve Bank of India (RBI) advised banks to take necessary remedial steps in respect of industrial units which do not comes under the purview of sick industrial companies (special provisions) Act, 1985, at the stage of 50 per cent erosion of their net worth. Certain specific industries while Bank also closely monitored certain specific Industries where sickness is more widespread.

5) From the RBI front, a number of other steps were also taken like:

a) Initiating up of sick industrial undertaking cell:

The Reserve Bank of India has set up a sick industrial understanding cell to function as a clearing house for information relating to sick units and also to act as a co-coordinating agency between the Government, banks, financial institutions and other agencies for tackling the various related issues. This cell has been closely looking in to and following-up the banks' performance in identifying sick units and taking remedial action. In order to monitor sick units, the banks have been instructed strengthen their organizational set up by establishing special cells for monitoring sick units, to provide consulting services to these sick units and to take up suitable nursing programmes nurse the sick units to health. In cases where the banks are unable to provide the assistance required, they have been asked to refer the cases to IDBI which would analyze the problems of the units, suggest a package of measures necessary and bring together the different agencies for finalizing the package.

b) Setting up of state level Inter Institutional Committees (SLIC)/ co ordination committee:

At the regional offices of the Department of Banking Operations and Development of Reserve Bank of India, committees have been set up for the purpose of ensuring better co-ordination between banks. These committees , besides providing a useful forum for exchange of information and discussion on the problems faced by the industrial units and small entrepreneurs, are expected inter alia, to deal with the problems relating to –

I. Co- ordination between banks and other financial institutions.

II. Provision of adequate infrastructure facilities to industrial units; and

III. General problems relating to the grant of credit to such units.

c) Setting up standing co-ordination committee:

In order to co-ordinate between commercial banks and term lending institutions on an 'ongoing' basis, a standing co-ordination committee has been constituted by RBI.

d) Setting up of special cell in RBI:

Within the rehabilitation finance division of the IDBI, a special cell has been set up a special cell has been set up for attending to references received from banks in respect of units being sick or in problem. Apart from this, the cell has been given with the task of carrying out diagnosing and analyzing studies of projects for identification of causes of sickness and formulation of appropriate rehabilitation programmes.

e) Setting up of screening committees:

Further the government has set up, a screening committee under the Chairmanship of secretary, Department of Industrial Development. The objective of this committee is to study the proposals sponsored by the various administrative ministries concerned with the sick units and the financial institutions.

6) Concessions by Government:

Certain concessions were also provided by the government to assist revival of sick units without intervention.

a) Income-tax relief: In 1977, income tax was amended by addition of section 72A which afforded grant of tax benefit to healthy units which in turn took over the sick units by amalgamation with a view of reviving them.

b) Margin money scheme: On January 1, 1982, a scheme for provision of margin money to sick units in the small-scale sector at soft terms was unveiled. This was to help them to obtain necessary funds from banks and financial institutions to implement their revival plans and formulations.

c) Liberalized money scheme: Another supplementary scheme was introduced in June 1987, which supplemented the efforts of the State Governments in reducing sickness in small-scale sector.

d) Excise loan scheme: In the year October 1989, the government introduced another scheme which granted excise loan for viable sick/viable units. In this scheme, specific units were eligible for excise loan not exceeding 50 percent of the excise duty actually paid for 5 years.

7) The Industrial Investment Bank of India:

With a view to reviving and rehabilitating sick units, the Government established the Industrial Reconstruction Corporation of India (IRCI). The functions of the IRCI were as follows:

i. To grant financial assistance sick units.
ii. To provide managerial, operational and technical advice to them.
iii. To ensure that they are able to get the help of other financial institutions and government agencies for the revival of sick units.
iv. In order for amalgamation, merger and other processes provide merchant banking services … and
v. To banks, provide consistency services with respect to sick industrial units.

With a view to overcoming the inherent difficulties which had been faced by IRCI in its efforts to rehabilitate the sick industrial units, by a notification issued on March 20, 1985, the Government converted the IRCI (which was a company registered under the companies act) into a statutory corporation and it was given the name Industrial Reconstruction Bank of India (IRBI). IRBI from March 27, 1977was reconstituted into a fully fledged all purpose development financial institution with effect and its new name is Industrial Investment Bank of India Ltd. (IIBI).

8. Board for Industrial and Financial Reconstruction (BIFR):

The sick industrial companies (Special Provisions) Act, 1985, which provides for the establishment of a board for industrial and financial reconstruction. The board stated functioning with headquarters in Delhi form 12th January, 1987. The board exerts its power over a wide array of areas of sick industrial units includes revival, change or take over management, reconstruction etc.

The sick Industrial Companies (Special Provisions) act enumerates the power of BIFR which is given below.

i. Sick Industrial companies (Special Provisions) Act, 1985 applies to all the scheduled industries under the industries (Development and regulation) Act, 1951 excluding ships and other vessels drawn by power, small and ancillary industrial undertakings. A company owing an industrial undertaking other than these would be years and there is a total erosion of its net worth by accumulated losses. Such company is required under section 15(1) of the Act to make references to the board for the financial year at the end of which company became sick for determination of measures which shall be adopted with respect to that company.
ii. Industrial companies in existence for a minimum period of five years and having losses equal to 50% or more of the peak net worth are to be deemed as potentially sick companies and are required under Section 23 of the Act to report the fact of such erosion to the BIER in a prescribed form in a period in a period of 60 days from the date of finalizing of duly audited accountants of the company.
iii. The Central Government or the Reserve Bank or State Government or a public financial institution or a state level institution or a scheduled bank may, if it has sufficient reasons to believe that the accumulated losses of any industrial company have resulted in erosion of 50% or more of its peak net worth during the immediate preceding four financial years, report the fact of such erosion to BIFR. The BIFR upon receiving such information or upon its own knowledge of an industrial company becoming a potential sick unit may call for such information from that company as it may deem it.

    In case of BIFR is of a opinion that the concerned company is not likely to make its net worth exceeds the accumulated loss within a reasonable time it may ask an agency to enquire and make a report with respect to such matters as may be specified by BIFR. If after considering all factors and giving reasonable opportunity to all concerned parties, the BIFR is of the opinion that the industrial company is not likely to become viable in near future, it may forward the companies case to the high court, as if it were a sick industrial company, for appropriate action under the Sick Industrial Companies (Special Provisions) Act, 1985.

iv. The board has also been empowered to give directions to sick industrial company to make its net worth positive within a reasonable time or in the alternative to get schemes or rehabilitation, revival, reconstruction, merger or amalgamation etc… of a sick industrial company prepared through its operating agency, i.e. one of the public financial institutions selected for this purpose. On sanction of such a scheme by the BIFR, the same becomes binding on the sick industrial company, its shareholders or as the case may be, transferee industrial company.

v. The BIFR has power to sell the assets of a sick industrial company, change its management, alter or amended its memorandum or articles association. It may also decide winding up of sick industrial company and on the basis of its opinion; the High Court shall order the winding up.

vi. The Government has the power to set up an appellate authority for industrial and financial reconstruction for hearing appeals against the orders of BIFR. The civil court shall have no jurisdiction in respect of any matter which falls within a purview of BIFR or the Appellate Authority. No injunction shall be granted by any court or any other authority in respect of any action taken or to be taken in pursuance to any powers conferred by or under the Act.

9) Working group on Rehabilitation of Sick Units:

The RBI, as per the recommendation of the Group of Ministries, set up a working group under the chairmanship of Mr. S.S.Kohli, the then Chairman of Indian Banks Association, to look in to the existing guide lines and reconstitute it in regard to rehabilitation and revitalization of sick SSI units extended by banks and financial institutions, and to suggest revision of guidelines, marking them transparent and non-discretionary for the rehabilitation of currently sick and potentially viable SSI sick units.

In may 2001, the report was submitted by the working group. The RBI accepted all the major recommendations, including a change in the definition of sick SSI units and the norms for deciding on the viability of sick units. The RBI drew up revised guide lines for rehabilitation of SSI unitswere drawn up, which were circulated on January 16, 2002, to all scheduled commercial banks for implementation, based on the accepted recommendations of the working group.

5.5 Failed Entrepreneurial Ventures and Turnaround Ventures - Case Studies

Shine Fabrics

Shine Fabrics is a manufacturer of Knitwear. It buys yarn, then converts yarn to fabrics on a circular knitting machine. The fabrics are then converted to T-Shirts and inner garments. Following is the process flow chart:

Yarn – Fabrics – Bleaching – Calendering – dyeing – calendaring – Cutting –Stitching – Inspection – Packing.

The Company has its own production facilities for making fabrics from yarn. The rest of the operations are subcontracted. Processing of the fabric is done by another factory on job-work basis. It is located around 30 Kms away from Shine Fabrics. Stitching is done by a set of 6-8 garment factories on job-work basis. They are located in a radius of 10 Kms. Inspection and packing is done in the company itself. The company has its own brand name. The sales are done through five distributors, each one operating in a specific area.

The products:

1) T-Shirts : White and coloured (6 colours) – all in 4 sizes
2) Vests : White and coloured (3 colours) – all in 4 sizes

The process starts with knitting of fabric by the company. After the fabric is knitted it is sent a factory 30 kms away for further processing of the material. The finished fabric is brought to the company, inspected and then sent to the garment factories for stitching. The finished material is brought back to the company for Inspection and packing. On an average 10 different types of fabrics are handled over a period of two weeks. Since there is shortage of space, the inspection of the finished goods is done in a hired shed located at the end of the street.

The owner Mr. Anmol, is a yarn expert and also has expertise in knitting. Now he manufactures knitwear T-shirts and undergarments. He spends most of his time for purchasing yarn and he spends little time in the company. He spends little time in the factory; he does a part of inspection in the shed and once in a week a couple of hours with his accountant. He knows his distributors pretty well so he hardly spends time with them. The distributors are giving him good orders.

Mr. Anmol has a Manager (a close relative) who is in charge of the factory. The Manager is good in handling workers. He spends a large part of the time in knitting and packing sections. He is also responsible for sending the fabric to the process house, collecting them and then sending the same for cutting and stitching.

The accountant Mr. Nair has a difficult time in keeping track of payments to the process house and garment factories. Sometimes, the Manager sends the fabrics to the process house without Nair's knowledge. When the process house sends the bill. Mr. Nair finds it difficult to verify the same. Sometimes, the process house owner rings up Mr. Anmol complaining of delay in payment. Mr. Anmol compels the accountant to release payment even without verifying the records.

Mr. Shekar is in-charge of packing. Considering that a variety of products are handled. He needs packing boxes of different types. He has no idea what materials are to be packed next week. Only a day before packing, he would know what materials to be packed when he receives the goods from inspection section. On many occasions, he runs short of packing boxes of the required type. Those who work in packing sections are on daily wages. Absenteeism is a problem at times. The owner reprimands Mr. Shekar often for delay in packing.

The owner Mr. Anmol is happy since the sales are increasing. There is no sales team. The distributors are happy because they get whatever items they ask for even if the order is small. However, in the past few months, the distributors are getting complaints from the retailers that the size of the T-shirts and vests as indicated on the box is different from the actual size.

As regards selling price, the distributors decide how much to pay to Mr. Anmol and what should be the maximum retail price. Since they have been with him for the past 6 years giving him good business, he trusts them. Whenever the cost of yarn goes up he asks the distributors to increase the price. His calculation is that he must get 40% more than the cost of the yarn to cover processing cost, cutting and stitching charges etc., leaving a good profit margin. He pays the process house based on the weight of the fabrics processed and the dye used. Payment for cutting and stitching is per-piece basis. Though the sales are increasing steadily Mr. Anmol is unable to save enough money to buy a shed and a showroom in a prominent location. When he spoke to the accountant, he was presented with a summary of 3 years operating results.

Summary of profit and loss account:

(Rs. in lakhs)	2008-09	2009-2010	2010-2011
Sales	128.00	158	212
Direct Cost	109.6	133.6	179.6
Interest on working capital	3.2	5.2	8
Overheads (Administration, Transport, etc.	8.8	11.6	15.6
Profit	6.4	7.6	8.8

Questions:

1. What do you think is the major problem of the company?
2. Project the trend for profit and loss account for next three years
3. Mr. Anmol is a first line entrepreneur, guide him in organizing his compay.
4. Help Mr. Anmol in formulating strategy to enhance the profitability of the business.

Entrepreneurship
Case Study

Muralidhar a Science Graduate started a Small Scale Industry in 1995 for manufacturing components to a large public sector company in Bangalore. Since his father had just then retired from service, he took financial help from him and invested Rs. 12 lakhs in his Small Scale Industry for purchase of machinery. He did not prepare a DPR to seek any financial assistance either from Bank or Financial Institution.

He took jobbing work from the public sector and used to supply the components at the rate of Rs. 50 per piece and the performance of the unit was satisfactory. Over the period of six years, many competitors entered the market and the price paid by the Public Sector came down to Rs. 35 per piece. During the same period, the cost of power increased by 50% and the labour cost went up by 25%.

To order inflow to the unit dipped continuously from 2001 onwards and the units has been making losses continuously since the prices got slashed to a level of Rs. 30 per piece in 2007. The industry has been using the same machine since inception.

The promoter of the unit desired to change his product i.e. enter into manufacture of accessories for two wheelers in the market. He wanted to supply these products directly to retail outlets. This venture called for the requirement of working capital of Rs. 20 lakhs. The promoter approached a few Bankers for Working Capital assistance. Since he had already invested all his finance for purchase of Machinery and further incurred loss for past

8 years. Bankers refused to provide finance to him. Muralidhar was not in a position to bring additional funds for investment in his unit.

Q. From the above data, analyze the stages at which the entrepreneur has erred to fall prey to the situation.

5.6 Summary

To summarize we can say that there is risk involved in every business venture begun or bought. The higher the reward, the greater risk that entrepreneurs face.

An entrepreneur may face financial risk, family and social risk and psychic risks. Entrepreneurs may also end up in stress.In the book "Managing in the Next Society", Peter Drucker , the world renowned management expert has identified four entrepreneurial pitfalls .The primary one is that often entrepreneurs reject success. Secondly, they do not pay close attention to cash flow. The third pitfall is that the entrepreneur outgrows his management base when business grows rapidly beyond expectations. The fourth pitfall is that entrepreneur begins to puts himself before his business is a success.

There are various external and internal causes of industrial sickness which have various consequences. Various preventive measures can be taken for the sickness of an industry and there are various remedial measures like policy framework of the Government, Sick Industries Companies Act was formulated and there are many steps taken by the commercial banks for improving the effectiveness on an industry.

5.7 Questions

Self Assessment Questions (Fill in the Blanks)

1. There is ………………involved in every business venture begun or bought. The higher……………………., the greater risk that entrepreneurs face.
2. In the book "Managing in the Next Society", Peter Drucker , the world renowned management expert has

identified……………………………………………...

3. The reasons for industrial sickness are divided into two categories…………………………...
4. The Government in collaboration with ……………….has arrangements for monitoring and surveying sickness of industrial units.
5. ………………………………………………………………… that provided for the setting up of the board for industrial and financial reconstruction (BIFR), and the establishment of Industrial Investment Bank of India contains the legislative and institutional framework for dealing with industrial sickness.

Terminal Questions

(2 Marks Questions)

1. Name the various types of risks which entrepreneurs face.
2. Name the four entrepreneurial pitfalls.
3. Mention four external causes of industrial sickness.
4. Mention four internal causes of industrial sickness.
5. What are the objectives of Sick Industries Companies Act, 1985?

(5 Marks Questions)

1. Why do entrepreneurs fail? What are the various types of risks they face?
2. Discuss the four entrepreneurial pitfalls.
3. Discuss the external causes of industrial sickness.
4. Discuss the internal causes of industrial sickness.
5. What are the consequences of industrial sickness?

(14 Marks Questions)

1. What are the various causes and consequences of industrial sickness?

2. What do you mean by industrial sickness?Discuss the various preventive measures for industrial sickness.
3. Describe the various remedial measures taken by the Government to improve the industrial effectiveness.

5.8 Answers

(Self Assessment Questions)

1. Risk, the reward
2. Four entrepreneurial pitfalls
3. External and internal
4. RBI
5. The sick industrial companies Act (SICA) 1985

(2 Marks Questions)

1. refer to section 5.2
2. refer to section 5.3
3. refer to section 5.4
4. refer to section 5.4
5. refer to section 5.4

(5 Marks Questions)

1. refer to section 5.2
2. refer to section 5.3
3. refer to section 5.4
4. refer to section 5.4
5. refer to section 5.4

(14 Marks Questions)

1. refer to section 5.4
2. refer to section 5.4
3. refer to section 5.4