Entrepreneurship Development & Small Business Enterprises

POORNIMA M CHARANTIMATH

ALWAYS LEARNING

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Entrepreneurship Development and Small Business Enterprises

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ENTREPRENEURSHIP DEVELOPMENT AND SMALL BUSINESS ENTERPRISES

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Dr Charantimath has a rich experience of 23 years in teaching, research, administration, and consultancy. She has authored two books and has numerous research papers to her credit.

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Preface

The objectives of achieving sustained industrial development, regional growth, and employment generation have always depended on entrepreneurial development and small small-scale industry. Economic reform and the process of liberalisation since 1991, while creating tremendous opportunities, have created new challenges relating to competitive strengths, technology upgradation, quality improvement, and productivity.

I am happy to place *Entrepreneurship Development and Small Business Enterprises* before students, teachers, management consultants, budding entrepreneurs and other readers interested in today's world of small business development and management. The inspiration to write this book came from my MBA teaching experience, where I encountered both the views of entrepreneurs as well as the demand for such a book from the academic fraternity.

Focus

This book is mainly written for the students and instructors of business school. The idea is that improvements can best come from creative thinking by the entrepreneur about his/her own enterprise, which motivate the entrepreneur to take action to improve his business. This book will also be useful for trainers who support entrepreneurship development during seminars and workshops.

Organisation of the Book

The book can be said to be divided into two parts. The first part covers entrepreneurship development and the second part covers management of small business enterprises. The two parts are organized into 12 chapters. The first is Entrepreneurship Development that covers Entrepreneurship, Women Entrepreneur and Family Business. The second relates to the Management of Small Business Enterprise that includes Modern Small Business Enterprises, Institutions Supporting Small Business Enterprises, Setting Up a Small Business Enterprise, Sickness in Small Business Enterprises, Strategic Management in Small Business Enterprise, Managing Finance, Marketing, Production, Quality and Human Resource Management in Small Business.

Unique to this Book

- ***Student Centric*:** Classroom simulative. Written in a simple lucid language.
- ***Case Study Centric*:** Real life cases are written in the Indian context for discussion and analysis.
- ***Industry-Institute Interface*:** Enriched by my own industrial experience, the concepts are linked to real life situations, bringing integration between industry and institute.
- ***Coverage*:** A thorough coverage of conceptual framework on entrepreneurship development and management of small business enterprises. Apart from modern enterprises, cottage and village industries are also extensively covered.

- ***Self-Learning Exercises***: Many exercises at the end of chapters for self-assessment and development.

Unique Pedagogical Features

1. Learning Objectives

Each chapter gives a list of Learning Objectives, which provides details of the issues whose knowledge and understanding help the learners.

Learning Objectives

- To understand the role and importance of small scale industry (SSI)
- To present the impact of globalisation and the WTO on SSI
- To introduce concepts and definitions of SSI
- To illustrate government policy and development of the small scale sector in India
- To trace the growth and performance of SSIs in India
- To analyse the findings of third All India Census of SSI sector
- To understand small and medium enterprises in other countries
- To understand the problems and prospects of SSIs

Box 1.1 The Importance of Small-scale Industries

- Provide increased employment through labour-intensive process.
- Require lower gestation period.
- Easy to set up in rural and backward areas.
- Need small/local market.
- Encourage growth of local entrepreneurship.
- Create a decentralised pattern of ownership.
- Foster diversification of economic activities.
- Introduce new products particularly to cater to local needs.

2. Boxes

Important highlights covering the current issues and case studies will draw the attention of the learners.

3. Snapshots

Snapshots provide the main points of the subject matter covered to help the learners in quick revision.

4. Discussion Forum

Each section of the chapter ends with revision questions. The objective is to enable the learners test and sum up the knowledge acquired before moving to the next section of the chapter. It will facilitate learners to be more interactive and encourage sharing of knowledge and help them widen their horizons.

SNAPSHOT

Role of SSI

- Dynamic and vibrant sector of the economy
- Prominent role in socio-economic transformation of the country
- Accounts for 35 per cent of industrial production 40 per cent of exports and 60 per cent of employment opportunities

DISCUSSION FORUM

- Discuss in small groups role and importance of SSIs.
- Explain the contribution of the SSI in the socio-economic transformation of the country.

Refer annual report of SIDBI for the text on role and importance of SSI in India.

5. Publication Resource Box/Website Resource Box

Regular references have been provided in every section to the related publications and websites to enhance their knowledge.

Visit www.banknetindia.com and www.laghu-udyog.com to learn more about the impact of WTO on SSI in India

Table 1.1 Investment Ceiling for Small-Scale Industries (December 1999)

Type of SSI unit	*Investment limit*	*Remarks*
Small-scale industry	Rs 10 million	Historical cost of plant and machinery
Ancillary	Rs 10 million	At least 50 per cent of its output should go to other industrial undertaking
Export oriented	Rs 10 million	Obligation to export 30 per cent of production
Tiny enterprise	Rs 2.5 million	No location limits
Women enterprise	Rs 10 million	51 per cent equity holding by women

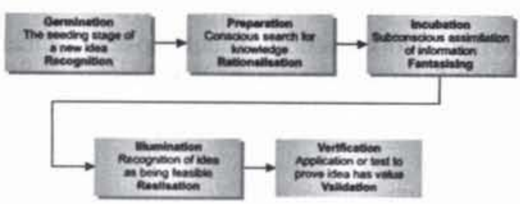

Figure 2.1 ■ The Creative Process

6. Chapter Illustrations

A large number of illustrations are provided in each chapter. The illustrations aim at supporting the conceptual inputs provided during the text of the chapters with the practice of real life situation and prepare the learners to effectively handle the chapter-end exercises. The various forms of illustrations given are:

(a) Tables

(b) Flow charts

EXHIBIT 9.1 Calculation of Working Capital

Details	Period (month)	Cost × Period (month)	Total WC	Margin (Rs)	Bank Finance
RM	3	Rs 6000 × 3	18000	3600	14400
WIP	1	(RM) 6000 × 1) + (CE) 3000 × .5)	7500	2500	5000
FG	1	RM + CE 9000 × 1	9000	1800	7200
Debtors	2	at cost 9000 × 2	18000	3600	14400
Cash	–	–	3000	–	3000
			55500	11500	44000
Creditors		6000 × 1	(–) 6000	–	(–) 6000
Total			49500	11500	38000

Note: RM Raw Materials WIP Work in Progress CE Cash Expense FG Finished Goods WC Working Capital

CASE STUDIES

Divide the class into small groups not exceeding five students each. Discuss this case in groups. Prepare answers for the case questions. All the groups have to prepare a 15-minute PowerPoint presentation on the case analysis. All the groups have to make the presentation in front of the panel consisting of three Professors of your Institute. After all the presentations are over, the panel has to decide the winner and the first and second runner-up.

(c) Case Studies
(d) Exhibits
(e) Computational/Numerical Illustrations
(f) Annexures

8. Chapter Summary

Each chapter ends with a summary, which will enable the learners to sum up the chapter at the end.

SUMMARY

- The word "entrepreneur" is derived from the French verb *enterprendre*, meaning "to undertake". Entrepreneurship can be defined as a process of action an entrepreneur undertakes to establish his enterprise.

9. Key Words

Key words, provided at the end of the chapter, will help the learners to recap the subject faster and enhance their entrepreneurship vocabulary.

KEY WORDS

- Entrepreneurship
- Entrepreneur
- Enterprise
- Incubation
- Illumination
- Verification

10. Chapter-end Exercises

The different types of exercises given at the end of each chapter are as follows.

(a) Case Studies
(b) Project work
(c) Questionnaire
(d) Exercises
(e) Activity
(f) Assignment

EXERCISES

Exercise 2.1

Do you have what it takes to be an entrepreneur?

Successful, self-made business people have some key traits and characteristics. You may not have all the necessary skills but then nor does every successful entrepreneur.

11. References

Each chapter has a consolidated list of all the resources, referred to in a given chapter. This will enable the readers to get quick access to original material. It includes:

(a) Books
(b) Journals, Magazines and Reports
(c) Websites

REFERENCES

Books

1. Abeles, J. (1965). *The Rockefeller Billions*. New York: Macmillan.
2. Casson, Mark (ed.). (1990). *Entrepreneurship*. Hants, U K: Edward Elgar Publishing Company.

Journals

1. Bull. I. and Willard G. E. (1993). "Towards a Theory of Entrepreneurship", *Journal of Business Venturing*, 8 (3), 183-95.
2. Chakravarty, T. K. (1987). "Entrepreneurship Development: Present Status and Emerging Priorities", *SEDME*, Vol. XIV, December, pp 1-10.

Websites

1. *www.enterweb.org*

The Enterprise Development Website is a "Knowledge Portal for Small Business", a one-stop window where relevant sources of information are already identified and assessed. The focus is on micro-enterprise, small-business and medium-enterprise development, both in developed and developing countries.

2. *www.entrepreneur.com*

101 ways to be a better entrepreneur

ACKNOWLEDGEMENTS

I thank all those who have helped, encouraged and supported me all through this project. My institution, Karnataka Law Society; Institute of Management Education and Research and its management; my publishers, Pearson Education and their editorial team; and the panel of reviewers for their constructive suggestions, which has added value to this book. I also thank all the entrepreneurs, who have contributed by giving the required information. I thank my colleagues, student friends and my immediate family, my husband Manoj Charantimath and my son Amit for their support.

Feedback

Suggestions, reviews, comments and observations from the readers are most welcome in an effort to improve later editions of this book. Please contact me at *poornima_22@yahoo.com.*

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1

Modern Small Business Enterprises

This Business House, created by an entrepreneur, Suresh B Hundre, of Polyhydron Private Limited, Karnataka, is modern in all respects and ready to face challenges by small business enterprises.

"Small opportunities are often the beginning of great enterprises."

—Demosthenes

Learning Objectives

- To understand the role and importance of small-scale industry (SSI)
- To present the impact of globalisation and the WTO on SSI
- To introduce concepts and definitions of SSI
- To illustrate government policy and development of the small-scale sector in India
- To trace the growth and performance of SSIs in India
- To analyse the findings of third All India Census of SSI sector
- To understand small and medium enterprises in other countries
- To understand the problems and prospects of SSIs

ROLE OF SMALL-SCALE INDUSTRIES

Today, the small-scale industry (SSI) constitutes a very important segment of the Indian economy. Credit for the development of this sector is due primarily to the vision of former Prime Minister Jawaharlal Nehru who sought to develop core industry and put in supporting sectors in the form of small-sector enterprises. The small-scale sector has emerged as a dynamic and vibrant sector of the economy. It is a well-recognised fact that a vibrant small-scale sector holds the key to economic prosperity in an economy like India, characterised by abundant labour supply, unemployment and underemployment, capital scarcity, growing modern large industrial sector providing scope for ancillarisation and so on. The sector has grown phenomenally during the past five decades besides playing a vital role in fulfilling India's socio-economic objectives. The number of small-scale units has increased from an estimated 8.74 lakh in 1980–81 to 32.25 lakh in 1999–2000. In fact, the small-scale sector accounts for about 35 per cent of the country's industrial production, 40 per cent of exports and 60 per cent of employment opportunities. Over ten years have passed since the process of liberalisation and globalisation have affected the fortunes of Indian small-scale enterprises (SSE).

SNAPSHOT

Role of SSI

- Dynamic and vibrant sector of the economy
- Prominent role in socio-economic transformation of the country
- Accounts for 35 per cent of industrial production, 40 per cent of exports and 60 per cent of employment opportunities

The small-scale industry (SSI) sector has, over the past six decades, acquired a prominent place in the socio-economic development in the country. The sector has exhibited positive growth trends even during the periods when other sectors of the economy experienced either negative or nominal growth. Various policy initiatives undertaken by the government, whether by way of incentives or protection, have helped the sector in acquiring the status of a major contributor in the growth process. In fact, though the SSI sector has demonstrated its strengths, the basic accent of the small-scale industrial policy has been defensive, aiming to insulate the sector from the dynamics of competitive growth.

Refer annual report of SIDBI for the text on role and importance of SSI in India.

The process of liberalisation and economic reforms, since 1991, while creating tremendous opportunities for the growth of SSIs, have, however, thrown up new challenges for the sector. In the changing scenario, building competitive strengths, introducing technology upgradation and quality improvement are vital issues which need to be addressed in order to build the capability to withstand emerging pressures and ensure sustained growth. Also, the sector needs to reposition itself if it has to meet expanding demands for ancillary items, subcontracting and job work from other industrial units, requiring higher standards of quality, economies of scale, and strict delivery schedules.

Box 1.1 The Importance of Small-scale Industries

- Provide increased employment through labour-intensive process.
- Require lower gestation period.
- Easy to set up in rural and backward areas.
- Need small/local market.
- Encourage growth of local entrepreneurship.
- Create a decentralised pattern of ownership.
- Foster diversification of economic activities.
- Introduce new products particularly to cater to local needs.
- Influence the standard of living of local people.
- Provide equitable dispersal of industries throughout rural and backward areas.

DISCUSSION FORUM

- Discuss in small groups role and importance of SSIs.
- Explain the contribution of the SSI in the socio-economic transformation of the country.

Impact of Globalisation on SSI in India

As discussed earlier, even before the introduction of economic reforms in 1991 following the inevitable globalisation, the SSI sector was somewhat overprotected. The hope that the infant would grow into an adult who could be freed to face competition has been completely belied. The small-scale industry never had a strong desire to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small-scale units into large ones and had a stunting effect on manufacturing, employment and output growth. With globalisation, the SSIs are now more exposed to severe competition both from the large-scale sector—domestic and foreign—and from MNCs.

The poor growth rate in the SSI sector during the post-liberalisation period can be attributed to various factors such as the new policies of the government towards liberalisation and globalisation without ensuring the interests or priority of the sector. Left to the mercy of lending institutions and promotional agencies whose main agenda is to serve big units and multinationals, the SSI sector has suffered deterioration in the quality of its output, industrial sickness, and retrograde growth.

The problems of SSIs in the liberalised environment are multidimensional—delay in implementation of projects, inadequate availability of finance and credit, expensive mode of communication, marketing problems, cheap and low-quality products, delay in payment, technological obsolescence, imperfect knowledge of market condition, lack of infrastructure facilities, and deficient managerial and technical skills, to name some.

Now, world over, business environment is changing fast. Globalisation, whether understood in a limited way in terms of multilateral trade liberalisation or in the broader sense of increasing internationalisation of production, distribution and so on, has resulted in the opening up of markets, leading to intense competition. For instance, the World Trade Organisation (WTO) regulates multilateral trade requiring its member countries to remove import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on imports by 2001 and all export subsidies by 2003. As a result, every single individual enterprise in India, small or large, whether exporting or serving the domestic market, has to face competition. The process was initiated for small-scale units by placing 586 of the 812 reserved items on the Open General Licence (OGL) list of imports. This opens up the possibility of direct competition in the domestic market with the imports of high-quality goods from developed countries.

Competition in the domestic market has further intensified with the arrival of multinational companies as the restrictions on foreign direct investments have been removed. The 1990s witnessed the entry of many multinational companies in areas such as automobiles and electronics.

In the changed environment, the SSI sector needs to integrate itself with the overall domestic economy and global markets by gearing itself to greater interdependence by networking and subcontracting. To meet the present as well as future requirements of the sector and the national economy satisfactorily, the policies and projects for the SSI sector will have to be effective and growth oriented so as to achieve competitiveness, collective approach, and capacity to upgrade.

In order to protect, support, and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Central Government.

The promotional measures cover the following.

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities

- Supply of machinery on hire-purchase terms
- Assistance for domestic marketing as well as exports
- Special incentive for setting up enterprises in backward areas and elsewhere
- Technical consultancy and financial assistance for technological upgradation.

While most of the institutional support services and some incentives are provided by the Central Government, others are offered in varying degrees by the state governments for attracting investments and promoting small industries with a view to enhancing industrial production and generating employment in their respective States.

Impact of the WTO on SSIs

The emerging challenges to the small-scale sector are due to the impact of the agreements under the WTO to which India is a signatory along with 134 member countries. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market-oriented policies. This is in keeping with the policy shift that occurred worldwide since the early 1980s in favour of free market forces and a tilt away from State regulation/intervention in economic activity. This is expected to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows. The main outcome of WTO-stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

SNAPSHOT

Impact of Globalisation and the WTO on SSI

- Tighter patent laws through regulation of intellectual property rights under the TRIPS Agreement
- Worldwide market and opportunity to export
- Intensified competition in the domestic market
- Import of high quality goods

There will also be tighter patent laws through regulation of intellectual property rights under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement which lays down what is to be patented (both products and processes), for what duration (20 years instead of the present 7 years under India's 1970 Patent Law), and on what terms.

The responses by trading countries and the reframing of domestic economic policies, which will result from the impact of the WTO and the repercussions on the global economy of all these changes, are highly uncertain as they involve several unforeseeable factors. However, there are certain indications of the shape of future trade patterns.

Increased market access to imports (of around 3 per cent of domestic production to be raised to 5 per cent) will mean opening up the domestic market to large flows of imports. The removal of Quantitative Restrictions (QRs) on imports has been speeded up and imports of these items will soon be freed from all restrictions as announced in the recent EXIM policy.

Increased market access under the WTO requirements will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if the SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in the present context.

WTO: Pros and Cons

Policy literature on general impact of the WTO and its agreements on SSIs are not different from its implications to industry in general because they comprise a major part of the Indian industry. Even though extensive information on the WTO is available, studies which associate the WTO with SSIs in India are few in number and limited in scope. As mentioned earlier, SSIs contribute about 54 per cent of non-traditional and 10 per cent of traditional product exports (taken together, about 35 per cent of total exports) of our country. However, SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment (or MFN) for exportable items across the countries all over the world, with better market access through the Internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with the government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit (Laghu Udyog, 2003).

India has a real chance of becoming a superpower in the services sector, particularly IT. It has already captured about 25 per cent of world exports. In contrast, SSIs have to face competition by way of cheap imports from different countries due to the removal of Quantitative Restrictions (QRs) on imports and lowering of tariffs. As a result, every single individual enterprise, small or big, whether exporting or serving the domestic market, has to face competition. In addition, OGL opens up the possibility of direct competition in the domestic market with the import of high quality goods from developed countries and cheap products from less-developed countries. Subsequently, entry of multinational companies has intensified competition in the domestic market. However, Indian SSIs are not in a position to compete with others due to inherent weaknesses like poor quality goods, costly credit, weak infrastructure, traditional technology, inflexible labour laws, lack of information and international exposure, and ineffective associations. Further, the export market will become tougher because of competition among developing countries with similar comparative advantages.

Visit www.banknetindia.com and www.laghu-udyog.com to learn more about the impact of WTO on SSI in India.

To overcome the above uncertainty, the WTO agreement suggests ways by which some of the adverse consequences could be neutralised. These are the use of Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Agreement on Trade-Related Investment Measures (TRIMS), and stringent hygienic, environmental, and labour standards. In addition, these agreements themselves provide certain inbuilt safety mechanisms like anti-dumping, countervailing and safeguard measures. Further, strict vigilance at the ports of entry is required to ensure that imported goods are as per quality standards invoiced and carry the name of the manufacturer and the maximum retail price. The WTO prevents subsidies, which directly affect competition of the product. It helps activities of common interest, which act indirectly as subsidy to the enterprise.

DISCUSSION FORUM

- Explain the role of the SSI sector in Indian economy.
- Discuss in small groups the impact of globalisation on the SSI sector.
- Discuss the pros and cons of the WTO.

CONCEPTS AND DEFINITIONS OF SSI

Small-scale Industrial Unit (SSI): An industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or by hire purchase, does not exceed Rs 100 lakh as on March 31, 2001, is to be treated as a small-scale industrial unit.

Ancillary Unit: This is a sub-class of SSIs. An industrial undertaking which is engaged or is proposed to be engaged in (i) the manufacture of parts, components, sub-assemblies, toolings or intermediates; or (ii) rendering of services, or supplying or rendering not less than 50 per cent of its production or its total services, as the case may be, to other units for production of other articles and whose investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or on hire purchase, does not exceed Rs 1 crore as on March 31, 2001, is to be treated as an ancillary enterprise.

Export-oriented Unit (EOU): An industrial undertaking in which the investment in fixed assets in plant and machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed Rs 100 lakh and has an obligation to export 30 per cent of production.

Tiny Unit: The investment limit in plant and machinery in respect of tiny enterprises is Rs 25 lakh irrespective of the location of the unit.

Women entrepreneurs: A small-scale industrial unit/industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital of not less than 51 per cent as partners/shareholders/directors of private limited company/members of cooperative society.

Refer annual report of Ministry of Small-scale Industries, Government of India for definitions of Small-scale Industries.

Small-scale Service and Business (industry-related) Enterprises (SSSBEs): Industry-related service and business-related enterprises with investment in fixed assets, excluding land and building, up to Rs 10 lakh, irrespective of location as on March 31, 2001, are to be treated as SSSBEs. The illustrative list of services (effective as on March 31, 2001) covered under the definition of SSSBEs is given below.

- Advertising agencies
- Marketing consultancy
- Industrial consultancy
- Equipment rental and leasing
- Typing centres

- Photocopying centres
- Industrial photography
- Industrial R&D laboratories
- Industrial testing laboratories
- Desktop publishing
- Internet browsing/setting up of cyber cafes
- Auto repair, services and garages
- Documentary films on themes like family planning, social forestry, energy conservation and commercial advertising
- Laboratories engaged in testing of raw materials, finished products
- "Servicing industry" undertakings engaged in maintenance, repair, testing or electronic/electrical equipment/instruments, that is, measuring/control instruments, servicing of all types of vehicles and machinery of any description including televisions, tape recorders, VCRs, radios, transformers, motors, watches, and so on.
- Laundry and dry cleaning
- X-ray clinic
- Tailoring
- Servicing of agriculture farm equipment, for example, tractors, pumps, rigs, boring machines, and so on
- Weigh bridge
- Photographic laboratory
- Blue printing and enlargement of drawing/design facilities
- ISD/STD booths
- Teleprinter/fax services
- Subcontracting exchanges (SCXs) established by industry associations
- EDP institutes established by voluntary associations/non-governmental organisations
- Coloured or black and white studios equipped with processing laboratory
- Ropeways in hilly areas
- Installation and operation of cable TV network
- Operating EPABX under franchise
- Beauty parlours and creches

Activities not recognised as SSIs and SSSBEs: The following activities are not recognised as SSIs and SSSBEs.

- Transportation
- Storage (except cold storage)
- Retail/wholesale trade establishments
- General merchandise stores
- Sale outlets for industrial components

- Health services including pathological laboratories
- Legal services
- Educational services
- Social services
- Hotels

Calculation of the Value of the Plant and Machinery

For the purpose of calculating the value of plant and machinery, the original price paid thereof, irrespective of whether the plant and machinery are new or second-hand, shall be taken into account. In general, for being regarded as a tiny or small-scale or ancillary industrial undertaking, the Government of India has issued the following guidelines.

(a) In calculating the value of plant and machinery, the following shall be excluded.

1. The cost of equipment such as tools, jigs, dies, moulds and spare parts for maintenance and the cost of consumable stores
2. The cost of installation of plant and machinery
3. The cost of research and development (R&D) equipment and pollution control equipment
4. The cost of power-generating sets, extra transformers, and so on, installed by the undertaking as per the regulations of the State Electricity Board
5. The bank charges and service charges paid to the National Small Industries Corporation or the State Small Industries Corporation
6. The cost involved in procurement or installation of cables, wiring, bus bars, electrical control panels which are not mounted on individual machines, oil circuit breakers/miniature circuit breakers, and so on, which are necessarily to be used for providing electrical power to the plant and machinery/safety measures
7. The cost of gas producer plant
8. Transportation charges (excluding taxes, for example, sales tax, excise tax, and others) for indigenous machinery from the place of manufacturing to the site of the factory
9. Charges paid for technical know-how for erection of plant and machinery
10. Cost of such storage tanks which store raw materials and finished products only and are not linked with the manufacturing process
11. Cost of fire-fighting equipment.

(b) In the case of imported machinery, the following shall be included in calculating the value.

1. Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port)
2. Shipping charges
3. Customs clearance charges
4. Sales tax.

Table 1.1 Investment Ceiling for Small-Scale Industries (December 1999)

Type of SSI unit	*Investment limit*	*Remarks*
Small-scale industry	Rs 10 million	Historical cost of plant and machinery
Ancillary	Rs 10 million	At least 50 per cent of its output should go to other industrial undertaking
Export oriented	Rs 10 million	Obligation to export 30 per cent of production
Tiny enterprise	Rs 2.5 million	No location limits
Women enterprise	Rs 10 million	51 per cent equity holding by women
Service and business enterprise	Rs 0.5 million	No location limits

DISCUSSION FORUM

- **Differentiate the investment ceiling limits of the following units:**
  (a) SSI (b) Ancillary (c) Export Oriented (d) Tiny Enterprises (e) Service and Business Enterprises (f) Women Enterprises
- **List the various services covered under the small-scale service and business enterprises.**

GOVERNMENT POLICY AND DEVELOPMENT OF THE SMALL-SCALE SECTOR IN INDIA

India's concern and support for small-scale enterprises has focused excessively on the small-scale industry. This can, perhaps, be traced back to Mahatma Gandhi's special concern for handicrafts and village-based industries. Various measures taken by the Central and State governments, for the development of the SSI have included product reservations, fiscal concessions, preferential allocation of credit and interest subsidy in a credit-rationing framework, extension of business and technical services, preference in government procurement, marketing assistance including export promotion by institutions such as National Small Industries Corporation, Small Industries Development Organisation, Handicrafts and Handloom Promotion Corporation, and Khadi and Village Industries Commission, as also promotion of ancillarisation, and so on.

Administratively, India's SSI sector is divided into seven industry groups.

Traditional Sector

1. Handicrafts
2. Handlooms
3. Khadi, village and cottage industries
4. Coir
5. Sericulture

Modern Sector

6. Powerlooms
7. Residual small-scale industries

The first five sectors are collectively called the traditional sector and the last two are known as the modern sector. The eligibility of SSI firms to take advantage of the various incentives offered depends on the definition of SSI used. Whereas most

TABLE 1.2 Evolution on Investment Limits for Small-scale Industries

Year	*Investment limit*	*Additional condition*
1950	Up to Rs 0.5 million in fixed assets	Less than 50 to 100 persons with or without power
1960	Up to Rs 0.5 million in fixed assets	No condition
1966	Up to Rs 0.75 million in plant and machinery	No condition
1975	Up to Rs 1 million in plant and machinery	No condition
1980	Up to Rs 2 million in plant and machinery	No condition
1985	Up to Rs 3.5 million in plant and machinery	No condition
1991	Up to Rs 6 million in plant and machinery	No condition
1997	Up to Rs 30 million in plant and machinery	No condition
1999	Up to Rs 10 million in plant and machinery	No condition

countries define SSEs in terms of employment levels, the Indian definition has been based largely on the cumulative amount of investment in plant and machinery. These investment limits have been periodically revised upwards (Table 1.2).

Industrial Policy 1991

The industrial policy measures announced in 1991 laid special emphasis on promotion and strengthening of small, tiny, and village industries. Besides affecting changes in investment limits and equity participation up to 24 per cent by other undertakings, a new scheme of integrated infrastructure development for SSIs with the participation of State government and financial institutions was initiated. The policy also proposed to encourage and support industry associations to establish counselling and common testing facilities, and to pursue a reoriented programme of modernisation and technological upgradation aimed at improving productivity, efficiency, and cost effectiveness in the small scale sector.

Policy Initiatives Since 1999

The emerging economic scenario in the changed, liberalised, and competitive economic environment necessitated structural and fundamental changes in the policy framework, causing a shift in focus from protection to promotion. In the post-reforms

SNAPSHOT

- Administratively, India's SSI sector is divided into seven industry groups
- **Traditional Sector:** Handicrafts, Handlooms, Khadi, Village and Cottage Industries, Coir and Sericulture. **Modern Sector:** Power looms and residual SSI
- Indian definition of SSE based largely on cumulative amount of investment in plant and machinery whose limits have been periodically revised upwards
- Emerging liberalised and competitive economic environment necessitated structural and fundamental changes in the policy framework, causing a shift in focus from protection to promotion

period, the government took a number of steps including partial de-reservation, change in investment limits, facilities for foreign participation, establishment of growth centres, export promotion, marketing assistance, incentives for quality improvements, and so on. The more important steps among these are given below.

- To better focus the attention on the problems of the SSI sector, a new Ministry of Small-scale Industries and Agro and Rural Industries was created on October 14, 1999. The ministry announced an Agenda for the Millennium policy.
- A new Credit Insurance Scheme was announced in the Budget 1999–2000 for SSI security to banks and to improve the flow of investment credit to SSI units, particularly export-oriented and tiny units.
- Banks on the basis of 20 per cent of their annual turnover determine the working capital limit for SSI units. The turnover limit for this purpose has been enhanced from Rs 4 crore to Rs 5 crore.
- A national programme to boost rural industrialisation has been announced, with a mission to set up 100 rural clusters every year.

Box 1.2 Policy Initiatives on SSI Sector in 2003-04

- 75 items reserved for exclusive manufacture in the SSI sector consisting of chemicals and their products, leather and leather products, laboratory reagents etc. were dereserved in June 2003.
- Selective enhancement of investment in plant and machinery from Rs 1 crore to Rs 5 crore carried out in respect of 13 items in stationery sector and 10 items in the drugs and pharmaceutical sector from June 5, 2003.
- The Union budget 2003-04 announced that banks would provide credit to the SSI sector within an interest rate band of 2 per cent above and below Prime Lending Rated (PLR). All public sector banks have adopted this norm.
- The composite loan limit for SSI units was enhanced from Rs 25 lakh to Rs 50 lakh.
- In its mid-term review of Monetary and Credit Policy 2003–04, the RBI announced that banks may enhance the limit of dispensation of collateral requirements for loans from the existing Rs 15 lakh to Rs 25 lakh on the basis of good track record and financial position of the units.
- The lower limit of Rs 5 lakh on loans covered under the Credit Guarantee Scheme has been removed. All loans up to Rs 25 lakh made eligible for guarantee cover under the Credit Guarantee Scheme.
- 417 SSI specialised bank branches made operational throughout the country.
- The final results of third All India Census of Small-scale Industries were released on January 17, 2004.
- In the first phase, 60 clusters were identified (July, 2003) for focused development, by including their credit requirements in the respective State Credit Plans.
- Setting up of a Small and Medium Enterprises Fund (SMEF) of Rs 10,000 crore under SIDBI, to inter alia, address the problems of inadequacy of financial resources at highly competitive rates for small-scale sector.
- Laghu Uddyami Credit Card scheme liberalised with enhanced credit limit of Rs 10 lakh (up from Rs 2 lakh) for borrowers with satisfactory track records.

To coordinate the latest development with regard to the WTO, a cell has been set up in the office of the Development Commissioner, to prepare policies for the SSI in tune with WTO agreements and organise WTO sensitisation seminars, workshops, and so on.

Steps are being taken to accelerate the programme of SSI branches to ensure that every district and SSI cluster within a district is served by at least one specialised SSI bank branch. Furthermore, to improve the quality of banking services, SSI branches are being asked to obtain ISO certification.

To further help SSI entrepreneurs, the National Equity Fund Scheme was introduced under which equity support is provided for projects up to a limit of Rs 15 lakh, which may be further raised to Rs 25 lakh.

Visit www.smallindustryindia.com for a full text on a Comprehensive Policy Package for the small-scale and tiny sector as announced on August 30 and 31, 2000.

The single window scheme of Small Industries Development Bank of India is also being extended to all districts. Thus, under the new policy, emphasis has been laid on development of small-scale sector by providing different facilities instead of providing different types of protection. A Comprehensive Policy Package for small-scale and tiny sector as announced on August 30 and 31, 2000 is given in Appendix 1.1.

DISCUSSION FORUM

- Name the seven industry groups of the SSI sector.
- Trace the evolution of investment limits in fixed assets for the SSI since 1950.
- Explain a shift in focus from protection to promotion policy initiatives since 1991 for the SSI sector.

GROWTH AND PERFORMANCE OF SMALL SCALE INDUSTRIES IN INDIA

Pre- and Post-liberalisation Periods

Since the beginning of planning in 1950–51, as discussed earlier, considerable efforts have been made for the development of small-scale industries in view of their potential for creating employment. Performance of the SSI sector in India during 1980s and 1990s is shown in Table 1.3 and Table 1.4.

Visit www.ssi.nic.in for policy framework for SSI sector.

The level of output by the SSIs went up from Rs 28,060 crore in 1980–81 to Rs 5,78,470 crore by the end of 1999–2000, showing an increase of nearly 20 times over a period of 20 years. Exports have also gone up by nearly 40 times over a period of two decades. The contribution of SSI in exports was high during the period, especially up to the year 1995. The trend reversed during the period 1995–2000 when the growth rate recorded a declining trend.

TABLE 1.3 Performance of SSI Units during the 1980s

Year	No. of units (lakh)	Production (Rs Cr.)	Employment (lakh)	Exports (Rs Cr.)
1980–81	8.74	28,060	71	1643
1981–82	9.62 (10.07)	32,600 (16.18)	75 (5.63)	2,070 (25.99)
1982–83	10.55 (9.67)	35,000 (7.36)	79 (5.33)	2,095 (1.21)
1983–84	115. (9)	41,300 (18)	84 (6.33)	2,350 (12.17)
1984–85	12.42 (8)	50,520 (22.32)	90 (7.14)	2,563 (9.06)
1985–86	13.56 (9.18)	61,228 (21.2)	96 (6.67)	2,785 (8.66)
1986–87	14.64 (7.96)	72,259 (18)	101(5.21)	3,631(30.38)
1987–88	15.86 (8.33)	87,300 (20.83)	107 (6.94)	4,373 (20.44)
1988–89	17.12 (7.94)	1,06,400 (21.88)	113 (5.61)	5,490 (25.54)
1989–90	18.26 (6.66)	1,32,320 (24.36)	120 (6219)	7,626 (39.91)
Average growth rate	836	18.9	6	19.l5

Source: Antony, Valsamma (2002), "The Prospects and Growth of SSIs in India: An Overview", *Southern Economist*, 41.1.
Note: Figures in brackets show the percentage increase over the previous year.

TABLE 1.4 Performance of Small-scale Industries during the 1990s

Year	No. of units (lakh)	Production (Rs Cr.)	Employment (lakh)	Exports (Rs Cr.)
1991–92	20.82	178699	130	13883
1992–93	22.35 (7.35)	2,09,300 (17.12)	134 (3)	17,785 (28)
1993–94	23.84 (6.67)	2,41,648 (15.46)	139 (3.7)	22,764 (28)
1994–95	25.71 (7.8)	2,93,990 (21.67)	146.56 (5.4)	29,068 (27.6)
1995–96	27.20 (5.8)	3,56,213 (21)	152.61 (4.1)	36,470 (25.5)
1996–97	28.57 (5)	4,12,636 (15.8)	160 (4.8)	39,248 (7.6)
1997–98	30.14 (5.5)	4,65,171 (12.7)	167.20 (4.5)	43,946 (12)
1998–99	31.21 (3.6)	5,38,357 (15.7)	172 (2.9)	49,481 (12.6)
1999–2000	32.25 (3.3)	5,78,470 (9.7)	178 (4.0)	53,975 (10.2)
Average	5.63	16.14	4.05	18.93

Source: *Economic Survey*, Government of India 2000-2001.
Note: Figures in brackets show the increase over the previous year.

The growth rate in employment in the SSI sector over the years had been on the decline. An all-time decrease was seen between 1995 and 2000.

It would also be worthwhile to look at the progress of the SSI sector in the post-liberalisation period compared to that of the 1980s. The increase in production and exports was more impressive than that of the number of units and employment. A stagnation or reversal of trend is noticeable in the performance of the SSI industries after 1995 in creation of employment as well as in the number of units set up.

TABLE 1.5 Comparative Performance of SSIs in Terms of Average Growth Rates

Areas of performance	*Average growth rates (%)*	
	1980–1990	*1991–2000*
No. of units	8.6	5.63
Production	19.9	16.14
Employment	6	4.05
Export	19.15	18.93

A comparison between the growth rates in the performance level of the SSIs between the two periods (Table 1.5) indicates wide disparities. The pace of growth during the 1990s was relatively lower compared to that of the pre-liberalisation period.

Performance of Small-scale Industries in India

The SSI sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and exports. The performance of the small-scale sector based on the final results of the third All India Census of SSIs, 2004, is given in Table 1.6. As per the Census of registered and unregistered units held for the year 2001–02, there were 105.21 lakh SSI units in the country, out of which 13.75 lakh were registered working units and 91.46 lakh unregistered units. Their contribution to production was Rs 2,82,270 crore and 249.09 lakh persons to employment. It is estimated that during 2003–04, the number of SSI units has increased to 115.22 lakh from 110.10 lakh in the previous year, registering a growth of 4.7 per cent. The value of production at current prices by the SSI units also increased to Rs 3,48,059 crore from Rs 3,11,993 crore during

TABLE 1.6 Overall Performance of Small-scale Sector in India

Year	*Number of units*	*Production (Rs Crore)*		*Employment*	*Exports*
	(lakh)	*(at current prices)*	*(at constant prices)*	*(lakh)*	*(Rs Crore)*
1994–95	79.60	1,22,210	1,09,116	191.40	29,068
1995–96	82.84	148,290	1,21,649	197.93	36,470
1996–97	86.21	1,68,413	1,35,380	205.86	39,248
1997–98	89.71	1,89,178	1,47,824	213.16	44,442
1998–99	93.36	2,12,901	1,59,407	220.55	48,979
1999–2000	97.15	2,34,255	1,70,709	229.10	54,200
2000–01	101.10	2,61,289	1,84,428	239.09	69,797
2001–02	105.21	2,82,270	1,95,613	249.09	71,244
2002–03	110.10	3,11,993	2,10,636	261.38	86,013
2003–04	115.22	3,48,059	2,26,392	273.97	NA

Source: Ministry of SSI, Third All India Census on SSI (Constant prices 1993-94)

2002–03. The sector is estimated to have grown at the rate of 7.5 per cent at constant prices over the previous year. Employment is estimated to have increased to 273.97 lakh persons from 261.38 lakh persons in the previous year.

Share of Small-scale Industrial Units in Total Exports

With the growing trend towards liberalisation and globalisation, export is one of the focus areas of SSI units. Since 1950, policy framework indicated the need for increased exports to meet the import requirements over a period of time; the SSI share in total exports has been increasing. As can be seen from Table 1.7, the overall percentage of SSI units in total exports was 9.6 per cent. The percentage recorded a high of 26.5 per cent exports in 1981–82. The same percentage touched a peak level of 31.5 per cent in 1991–92 and 36.4 per cent in 1993-94. The share of SSI sector in total exports was 35.2 per cent in 1994–95, 34.3 per cent in 1995–96, 33.4 per cent in 1996–97, 35.2 per cent in 1997–98 and 34.6 per cent in 1998–99. During 1971–72, the total exports were Rs 1,608 crore of which the share of the SSI sector was Rs 155 crore. The total all-India export during 1998–99 increased to Rs 1,41,603.5 crore and the share of the SSI sector was Rs 48,979.2 crore. The overall performance of the SSI sector in total exports was fairly satisfactory. The late entry of MNCs and large companies in the area reserved for the SSI sector has given a big jolt to the sector.

The commodity-wise export of major products by SSI units has also been increasing over a period of time. As can be concluded from Table 1.8, among the non-traditional goods, the readymade garments exports increased from Rs 5,654.2 crore in 1991–92 to Rs 22,209 crore in 1998–99. The finished leather products exports increased from Rs 2,547 crore in 1991–92 to Rs 3,438.5 crore in 1998–99. The basic chemicals, pharmaceuticals and cosmetics exports of the SSI sector increased from Rs 1,936.2 crore in 1991–92 to Rs 3,427 crore in 1998–99. The share of the non-traditional sector, which was Rs 13,287.7 crore in 1991–92, increased to Rs 45,890.4 crore in 1998–99. Among the traditional commodities, cashew kernel exports increased from Rs 537.2 crore in 1991–92 to Rs 1,613.2 crore in 1998–99. The spices exports increased from Rs 36.2 crore in 1991–92 to Rs 1,406.4 crore in 1998–99. Exports by SSI units (listed as "lac" under "Traditional Products" in Table 1.7), which stood at Rs 27.4 crore in 1991–92, increased to Rs 69.3 crore in 1998–99. The above analysis indicated that non-traditional products accounted for the major share of the export of SSI units as compared to the traditional product exports.

The overall analysis of growth and development of entrepreneurship in India indicates that in different States, the number of units promoted by entrepreneurs is increasing manifold. Their contribution in the overall production, employment, investment, and exports had a multiplier impact on the different sectors. Various factors had affected the performance of entrepreneurship over a period of time. The government changed its policy to give a boost to entrepreneurship in the country. Risky projects are being promoted and financed by venture funds. With the advent of an era of liberalisation and globalisation, small-scale entrepreneurs are facing acute competition. With the coming in force of the WTO agreement on April 1, 2001, the SSI units have to face challenge from MNCs and other large-scale units. Budding

TABLE 1.7 Share of Small-scale Industries in Total Exports

Year	Total exports (Rs Crore)	%age increase	Exports from small-scale sector (Rs Crore)	%age increase	%age share of SSI
1971–72	1,608.0	—	155.0	—	9.6
1972–73	1,971.0	22.6	305.8	97.3	15.5
1973–74	2,523.4	28.0	393.2	28.6	15.6
1974–75	3,332.9	32.1	540.7	37.5	16.2
1975–76	4,042.3	21.3	532.1	(–)1.6	13.2
1976–77	5,142.3	27.2	765.8	43.9	14.9
1977–78	5,484.3	6.7	844.8	10.3	15.4
1978–79	5,726.3	4.4	1,069.2	26.6	18.7
1979–80	6,458.8	12.8	1.226.3	14.7	19.0
1980–81	6,710.7	3.9	1,643.2	34.0	24.5
1981–82	7,805.9	16.3	2,070.6	26.0	26.5
1982–83	8,907.8	14.1	2,045.0	(–)1.2	23.0
1983–84	9,872.1	10.8	2,164.0	5.8	21.9
1984–85	11,493.7	16.4	2,540.8	17.4	22.1
1985–86	10,894.6	(-)5.2	2,769.1	9.0	25.4
1986–87	12,566.6	15.3	3,643.7	31.6	29.0
1987–88	15,741.2	25.3	4,373.0	20.0	27.8
1988–89	20,295.2	28.9	5,489.6	25.5	27.0
1989–90	27,681.5	36.4	7,625.7	38.9	27.5
1990–91	32,553.3	17.6	9,664.1	26.7	29.7
1991–92	44,041.8	35.3	13,883.4	43.7	31.5
1992–93	53,350.5	21.1	17,784.8	28.1	33.3
1993–94	69,547.0	30.4	25,307.1	42.3	36.4
1994–95	82,674.1	18.9	29,068.2	14.9	35.2
1995–96	10,6,464.9	28.8	36,470.2	25.5	34.3
1996–97	11,7,525.0	10.4	39,248.5	7.6	33.4
1997–98	12,6,286.0	7.5	4,442.2	13.2	35.2
1998–99	1,41,603.5	12.1	48,979.2	10.2	34.6

Source: Government of India, *Handbook of Industrial Statistics, 2000*
Product-wise Exports of Small Scale Industrial Sector

TABLE 1.8 Commodity-wise Export of Small-scale Industrial Units

S.No.	Product groups	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99
Non-traditional (A)									
1.	Engineering Goods	1,390	1,950	2,056	2,325	3,025	3,390	4,400	4,815
2.	Basic Chemicals, Pharmaceuticals and Cosmetics	1,936.2	1,992.8	2,432.8	2,676.2	3,002.5	4,331.2	6,502	3,427
3.	Chemical and Alliled Products	150	119	174.4	237.7	250	353.4	480	484.9
4.	Plastic Products	80	175.4	267	356.1	265	714.6	985	957.1
5.	Finished Leather and Leather Products	2,547	2,954	3,311.5	4,400.5	4,910.5	3,200	3,262.6	3,438.5
6.	Marine Products	519.8	506.8	609.6	664.5	624.3	953	2692.1	1204.6
7.	Processed Foods	603.9	840.5	1716	1761.7	5158.8	4868.6	4620.2	6253.1
8.	Woolen Garments and Knitwears	123.6	208.1	300.2	319.8	896.1	863.4	1353.1	1589.9
9.	Sports Goods	76.5	93.6	132.2	179.9	207.5	217.5	240.7	247.8
10.	Readymade Garments	5,654.2	7,956.7	11,771	13,240	14,807	16,729	16,551	22,209
11.	Rayon Synthetic Products	14.3	15.7	1,163.3	1,416.9	1,686.2	1,613.3	1,365.4	720
12.	Processed Tobacco, Snuff and Bidi	187.4	240.1	193.7	111.8	237.6	520.3	358.4	543.5
	Non-traditional Total (A)	13,288	17,053	24,137	27,690	35,067	37,755	42,810	45,890
Traditional Products (B)									
13.	Cashew Kernel Cashew Nut Sheet liquid	537.2	642.5	1027.6	1244.3	1230.2	1283	1427	1613.2
14.	Lac	27.4	51.5	88.6	72.8	98.7	92.9	64.4	69.3
15.	Spices, Spice Oils, Oleoresins	36.2	38.2	54	60.7	74.3	118	140.8	1406.4
	Traditional Total (B)	600.7	732.2	1170.2	1377.8	1403.2	1493.9	1632	3088.8
	Total (A + B)	13,883	17,785	25,307	29,068	36,470	39,249	4,442	48,979

Source: Government of India, *Handbook of Industrial Statistics, 2000* entrepreneurs will have to follow a strategic management approach in the starting, working and management of their units. This study intends to examine the managerial performance of the SSI units, socio-economic profile of the entrepreneurs, analysis of policy perspective of the government, problems in the promotion of SSI units, and entrepreneurship development. The study will help policy-makers, researchers, government, financial institutions and all those concerned with the development of industrial entrepreneurship in the country to build a policy perspective in this regard.

DISCUSSION FORUM

- Analyse the performance of SSI in India in terms of
  (a) GDP (b) Employment potential (c) Production (d) Exports
- Compare the export potential of SSI with the total exports.

THIRD ALL INDIA CENSUS OF SSI SECTOR

The main highlights of the third Census of Small-scale Industries are classified under the following headings and are given below.

1. Registered SSI Sector
2. Unregistered SSI Sector
3. Total SSI Sector
4. Sickness in SSI Sector

Visit http://indiabudget.nic.in for the performance of SSI sector in India

Visit www.smenetwork.net and www.smallidustryindia.com for complete report on, the Third All India Census on SSI's

In the third census, the units permanently registered up to March 31, 2001 were covered on complete enumeration basis. A total of 22,62,401 units were surveyed. Out of these, 13,74,974 units were found to be working and the remaining 8,87,427 units were found to be closed. Thus, the number of working units works out to be 60.77 per cent and those of closed 39.23 per cent. The dispersal of working and closed units in rural and urban areas is given in Fig 1.1. Table 1.9 and Fig 1.2 show sector-wise distribution of registered working and closed units.

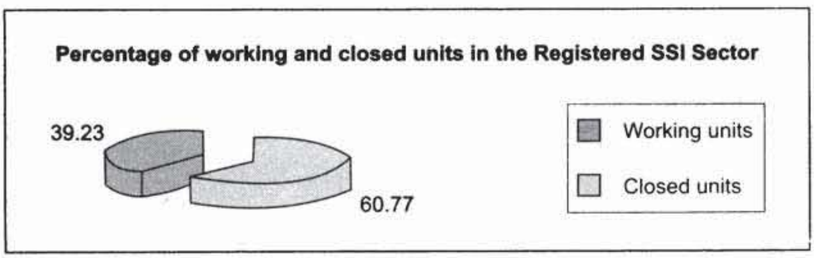

Figure 1.1 ■ Percentage of Working and Closed Units in the Registered SSI Sector

Box 1.3 Registered SSI sector

- All the SSI units permanently registered up to March 31 2001, numbering 22,62,401, were surveyed on a complete enumeration basis. Of these 13,74,974 units (61 %) were found to be working and 8,87,427 units (39 %) were found to be closed.
- Of the 13,74,974 working units, 9,01,291 were SSIs and 4,73,683 were SSSBEs. Thus, the proportion of SSIs was 65.55 per cent. About 5.08 per cent of the SSI units were ancillary units. The proportion of units operating in rural areas was 44.33 %.
- In terms of the number of working units, six states, viz., Tamil Nadu (13.09 %), Uttar Pradesh (11.85 %), Kerala (10.69 %), Gujarat (10.08 %), Karnataka (8.04 %), and Madhya Pradesh (7.41 %), had a share of 61.16 %.
- With regard to closed units, six States, viz., Tamil Nadu (14.33 %), Uttar Pradesh (13.78 %), Punjab (9.32 %), Kerala (8.43 %), Madhya Pradesh (7.4 %), and Maharashtra (6.11 %) had a share of 59.37 %.
- The per unit employment was 4.48. The employment per Rs 1 lakh investment in fixed assets was 0.67.
- The rice milling industry topped the list in terms of gross output. In terms of exports, the textile garments and clothing accessories industry was on top.
- Compared to the Second Census, the Third Census brought out some structural changes in the registered SSI sector. While the proportion of working units remained the same, by and large, the domination of SSIs among the working units has been reduced considerably from 96 % to 66 %. This is mainly due to an increase in the number of units engaged in services. The per unit employment has gone down from 6.29 to 4.48. The per unit fixed investment has gone up from Rs 1.60 lakh to Rs 6.68 lakh. This could be due to technological upgradation.

TABLE 1.9 Sector-wise Distribution of Working and Closed Units

	Rural	*Urban*	*Total*
Working units	44.33 %	55.67 %	100.00 %
Closed units	37.92 %	62.08 %	100.00 %
Total	41.82 %	58.18 %	100.00 %

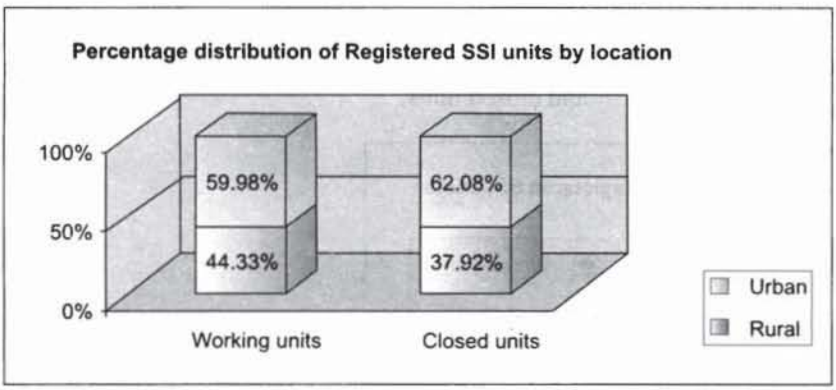

Figure 1.2 ■ Percentage Distribution of Registered SSI Units by Location

Box 1.4 Unregistered SSI Sector

- This sector was surveyed using a two-stage stratified sampling design. Out of the 9,94,357 villages and urban blocks, 19,579 villages and urban blocks were surveyed to identify the units of unregistered SSI sector. Out of these, information was complete received in respect of 19,278 villages and urban blocks. In these villages and urban blocks, the enumerators selected 1,68,665 unregistered SSI units for survey, but they could actually survey 1,67,665 units.
- The size of the unregistered SSI sector is estimated to be 91,46,216. Of these, only 38.75 % were SSIs and the rest were SSSBEs.
- The reasons for non-registration were elicited in the Third Census. Interestingly, 53.13 % of the units informed that they were not aware of the provision for registration, while 39.86 % of the units indicated that they were not interested.
- About 45.38 % of the units were engaged in services while 36.12 % were engaged in manufacturing and the remaining 18.5 % in repair/maintenance.
- The maximum number of unregistered SSI units (16.89 %) were located in Uttar Pradesh. Other States with a high concentration of unregistered SSI units were Andhra Pradesh, West Bengal, Maharashtra, Madhya Pradesh, Tamil Nadu, Karnataka, Bihar, Rajasthan and Gujarat.
- About 96.9 % were proprietary units and 1.13 % partnership units.
- The average employment was 2.05 and the employment generated per Rs 1 lakh fixed investment was 3 persons.
- About 10.13 % of the units were women enterprises and the socially backward classes managed 57 % of the units.

Box 1.5 Total SSI sector

- The size of the total SSI sector is estimated to be over one crore (1,05,21,190). About 42.26% of these units were SSIs, the rest were SSSBEs. The number of ancillaries among SSIs was 2.98%.
- About 47.22% of the units were located in Uttar Pradesh, Andhra Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu.
- The services sector emerged as the dominant component in the total SSI sector with a share of 44% of the units.
- Although registration is voluntary in the SSI sector, the registered SSI sector was found to be the cream of the total SSI sector. In terms of size, it was only 13%, but in terms of investment its share was 59 % and it contributed to 59% of the total production.
- About 95.8% of the units were of the proprietary type of ownership. Entrepreneurs belonging to socially backward classes managed about 56% of the units.
- The percentage of women enterprises was 10.11%. The percentage of enterprises actually managed by women was 9.46%.
- The percentage of women employees was 13.31%. The employees belonging to socially backward classes was to the tune of 57.45%.

Box 1.6 Sickness in SSI sector

- Sickness was identified through the latest definition of RBI given by the Kohli Committee. Incipient sickness was identified in terms of continuous decline in gross output.
- Sickness in the total SSI sector was to the tune of 1%, whereas in the registered and unregistered SSI sectors it was 3.38% and 0.64% respectively.
- The maximum number of sick units—about 59.33 % was located in West Bengal, Kerala, Maharashtra, Karnataka, and Andhra Pradesh.
- Out of the units having loan outstanding with institutional sources such as banks and financial institutions, sickness was reported to be about 19.6% in the registered SSI sector and 16.61% in the unregistered SSI sector. In the total SSI sector, this percentage was 17.8.
- Incipient sickness, identified in terms of a continuous decline in gross output was 11.5% in the registered SSI sector and 6.48% in the unregistered SSI sector. In the total SSI sector, this percentage was 7.4.
- Combining the three yardsticks used to measure sickness, viz., (a) delay in repayment of loan over one year, (b) decline in net worth by 50%, and (c) decline in output in last three years, about 13.98% of the units in the registered SSI sector were identified to be either sick or incipient sick. This percentage was only 6.89 in the case of unregistered units. In the total SSI sector, this percentage was 7.82.
- The States of Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, and Maharashtra had maximum number of sick/incipiently sick SSI units. These five States together accounted for 54.28% of the sick/incipiently sick SSI units in the country.
- "Lack of demand" and "Shortage of working capital" were the main reasons for sickness/incipient sickness in both the registered and unregistered SSI sectors.

Table 1.10 shows the summary results of the Third All India Census of SSI and Table 1.11 shows the details of the units covered in this Census. Table 1.12 gives the comparative statement of Second and Third All India Census on SSI.

Registered SSIs All SSIs registered permanently with State Directorates of Industries/District Industries Centres as on March 31, 2001, are called registered SSIs. Some SSI units were earlier registered when the upper ceiling limit in plant and machinery was Rs 100 lakh. These units are also to be treated as registered SSIs.

Unregistered SSIs All the SSIs not registered permanently with State Directorates of Industries/ District Industries Centres on or before March 31, 2001, are called unregistered SSIs. SSIs temporarily registered on or before March 31, 2001, as also units that are temporarily or permanently registered after March 31, 2001, till the date of survey will be treated as unregistered SSIs, during the third all-India Census on SSI.

Registered SSSBEs All SSSBEs registered with State Directorates of Industries/ District Industries Centres as on March 31, 2001, are called registered SSSBEs.

Unregistered SSSBEs All SSSBEs not registered permanently with State Directorates of Industries/District Industries Centres on or before March 31, 2001, are called unregistered SSSBEs.

TABLE 1.10 Summary Results of Third Census Reference Period 2001-02

Characteristics	*Registered SSI Sector*	*Unregd. Sector*	*Total SSI Sector*
1. Size of the sector	13,74,974	91,46,216	1,05,21,190
2. No. of rural units	6,09,537 (44.33%)	51,98,822 (56.8%)	58,08,359 (55%)
3. No. of SSIs	9,01,291 (65.55%)	35,44,577 (38.75%)	44,45,868 (42.26%)
4. No. of SSSBEs	4,73,683 (34.45%)	56,01,639 (61.25%)	60,75,322 (57.74%)
5. No. of ancillary units (% age of no. of SSIs)	45,797 (5.08%)	86,516 (2.44%)	1,32,313 (2.98%)
6. No. of tiny units among SSIs	8,82,496 (97.9%)	35,43,091 (99.9%)	44,25,587 (99.5%)
7. No. of women enterprises	1,37,534 (10%)	9,26,187 (10.13%)	10,63,721 (10.11%)
8. Nature of activity			
Manufacturing/Assembling/ Processing	8,72,449 (63.45%)	33,03,366 (36.12 %)	41,75,815 (39.69%)
Repairing & Maintenance	28,843 (2.10%)	16,92,663 (18.50%)	17,21,500 (16.36%)
Services	4,73,682 (34.45%)	41,50,187 (45.38%)	46,23,869 (43.95%)
9. Type of organisation			
Proprietary	12,21,702 (88.85%)	88,62,548 (96.9%)	1,00,84,250 (95.8%)
Partnership	99,190 (7.21%)	1,03,662 (1.13%)	2,02,852 (1.9%)
Pvt. Company	33,284 (2.42%)	38,153 (0.42%)	71,437 (0.68%)
Cooperatives	4,715 (0.34%)	9,854 (0.11%)	14,569 (0.14%)
Others	16,083 (1.17%)	1,31,999 (1.44%)	1,48,082 (1.41%)
10. No. of units managed by			
SC	1,07,934 (7.85%)	9,43,969 (10.32%)	10,51,903 (10%)
ST	48,560 (3.53%)	4,74,271 (5.19%)	5,22,831 (4.97%)
OBC	5,29,406 (38.50%)	38,11,372 (41.67%)	43,40,778 (41.26%)
Others	6,89,074 (50.12%)	39,16,604 (42.82%)	46,05,678 (43.8%)
11. No. of units managed by women	1,14,361 (8.32 %)	8,80,780 (8.37 %)	9,95,141 (9.46 %)

Contd.

12. Main source of power			
No power needed	3,60,611 (26.23%)	38,55,035 (42.15%)	42,15,646 (40%)
Coal	28,841 (2.10%)	2,95,165 (3.23%)	3,24,006 (3.1%)
Oil	40,401 (2.94%)	5,55,416 (6.07%)	5,95,817 (5.66%)
LPG	7,222 (0.53%)	55,237 (0.60%)	62,459 (0.59%)
Electricity	8,99,657 (65.43%)	40,25,262 (44.01%)	49,24,919 (46.8%)
Non-conventional energy	7,142 (0.52%)	60,539 (0.66%)	67,681 (0.64%)
Traditional energy/Firewood	31,100 (2.26%)	2,99,562 (3.28%)	3,30,662 (3.14%)
13. No. of units having outstanding loan as on March 31, 2002	2,76,333 (20.1%)	5,01,306 (5.48%)	7,77,639 (7.39%)
14. No. of units having outstanding loan with institutional sources as on March 31, 2002	1,96,137 (14.26%)	2,82,267 (3.09%)	4,78,404 (4.55%)
15. No. of sick units (with erosion of networth by more than 50 % or delay in repayment of institutional loan by more than 12 months)	46,431 (3.38%)	58,338 (0.64%)	1,04,769 (1%)
16. No. of incipient sick units (decline in gross output over three consecutive years)	1,58,023 (11.5%)	5,92,899 (6.48%)	7,50,922 (7.14%)
17. No. of sick units as per RBI criteria, i.e., those that are sick among units having outstanding loan with institutional sources	38,403 (19.6%)	46,887 (16.61%)	85,290 (17.8%)
18. No. of sick/ incipient sick units (with erosion of net worth by more than 50 % or delay in repayment of institutional loan by more than 12 months or decline in gross output over three consecutive years)	1,92,328 (13.98%)	6,30,568 (6.89%)	8,22,896 (7.82%)
19. Reasons for sickness/incipient sickness			
Lack of demand	1,11,508 (58%)	4,35,121 (69%)	5,46,629 (66%)
Shortage of working capital	1,09,844 (57%)	2,69,648 (43%)	3,79,492 (46%)
Non-availability of raw material	23,493 (12%)	76,029 (12%)	99,522 (12%)

Contd.

Power shortage	33,099 (17%)	77,345 (12%)	1,10,444 (13%)
Labour problems	12,182 (6%)	26,282 (4%)	38,464 (5%)
Marketing problems	70,202 (37%)	2,24,002 (36%)	2,94,204 (36%)
Equipment problems	16,995 (9%)	76,038 (12%)	93,033 (11%)
Management problems	9,124 (5%)	21,088 (3%)	30,212 (4%)
20. Per unit employment	4.48	2.05	2.37
21. Total employment	61,63,479	1,87,69,284	2,49,32,763
22. Per unit original value of Plant & Machinery (in Rs lakh)	2.21	0.27	0.52
23. Total original value of Plant & Machinery (in Rs lakh)	30,32,868	24,56,492	54,89,360
24. Per unit fixed investment (in Rs lakh)	6.68	0.68	1.47
25. Total fixed investment (in Rs lakh)	91,79,207	62:55,660	1,54,34,867
26. Per unit Gross Output (in Rs lakh)	14.78	0.86	2.68
27. Total Gross Output (in Rs lakh)	2,03,25,462	79,01,536	2,82,26,998
28. No. of exporting units	7,344	43,262	50,606
29. Value of exports (in Rs lakh)	12,30,826	1,89,130	14,19,956
30. Employment per Rs one lakh investment	0.67	3.00	1.62
31. Units maintaining accounts	4,04,672 (29.43%)	5,98,533 (6.54%)	10,03,005 (9.53%)
32. No. of economic activities as per National Industrial Classification 1998, pursued in SSI sector	672	619	672
33. No. of products/ services as per ASICC produced/ rendered in SSI sector	5,983	2,680	6,003
34. No. of reserved products (as per the reserve list effective on March 31, 2001) produced in SSI sector	877	382	878

Unregistered SSI sector All unregistered SSIs and unregistered SSSBEs constitute the unregistered SSI sector. SSIs and SSSBEs that are temporarily registered on or before March 31, 2001, as also units that are temporarily or permanently registered after March 31, 2001, till the date of survey (Third All India Census on SSI) will be treated as unregistered for the purpose of this survey.

TABLE 1.11 Details of Units Covered

Registered SSI Sector	
Total no. of units surveyed	22,62,401
Number of working units	13,74,974 (61%)
Number of closed units	8,87,427 (39%)
Unregistered SSI Sector	
No. of villages/urban blocks surveyed	19,579
No. of villages/ urban blocks for which data was received	19,278 (98%)
No. of unregd. SSIs/ SSSBEs selected for survey	1,68,654
No. of unregd. SSIs/ SSSBEs actually surveyed	1,67,665 (99%)
Estimated no. of units w.r.t. reasons for non-registration	
Not aware of the provisions for registration	53.13%
Not interested	39.86%
Complicated procedures	3.87%
Local laws/ regulations do not permit	1.76%
Clearance not available from Municipality etc	1.38%

TABLE 1.12 Comparison of the Third Census with Second Census (Registered SSI Sector)

S.No.	*Indicator*	*2nd Census (1987-88)*	*3rd Census (2001-02)*
1.	Percentage of Working Units	62.75	60.77
2.	Percentage of Working Units in rural areas	42.20	44.33
3.	Percentage of Working Units that are		
	SSIs	96.24	65.55
	Ancillaries	0.52	5.08
	SSSBEs	3.24	34.45
4.	Percentage of Proprietorship Working Units	80.48	88.85
5.	Percentage of Proprietorship Working Units engaged in Manufacturing/Assembly/Processing	65.42	63.45
6.	Percentage of Working Units that are owned/managed by		
	SCs	6.84	7.85
	STs	1.70	3.53
	Women	7.69	8.32
7.	Per Working Unit Fixed Investment (Rs lakh)	1.60	6.68
8.	Per Working Unit Investment (Original) in P&M (Rs lakh)	0.95	2.21
9.	Per Working Unit production (Rs lakh)	7.38	14.78
10.	Per Working Unit Employment (number)	6.29	4.48
11.	Employment per Rs one lakh of investment in Fixed Assets	3.94	0.67
12.	Production/Employment (Rs lakh)	0.04	3.30

DISCUSSION FORUM

- Discuss in small groups, the findings of Third All India Census on SSIs in India held for the year 2001-02.

SMALL AND MEDIUM ENTERPRISES (SME) IN OTHER COUNTRIES

There is a growing recognition worldwide that small and medium enterprises (SMEs) have an important role to play in the present context given their greater resource-use efficiency, capacity for employment generation, technological innovation, promoting inter-sectoral linkages, raising exports and developing entrepreneurial skills. Their locational flexibility is an important advantage in reducing regional imbalances. The future of SMEs is of major policy concern given their strategic importance in any discussion of reshaping the industrial sector. This is more so in the case of India, which has one of the longest history of government support to the small-scale industrial sector since independence compared to most developing countries.

International SME Network (INSME)—Background

In the Bologna Charter on SME policies adopted in June 2000, ministers and representatives of governments of countries participating in the first OECD Ministerial Conference on SMEs welcomed Italy's offer to finance and promote a feasibility study, including a need assessment, to define the potential design and development of an International Network for SMEs (INSME).

SNAPSHOT

Small and Medium Enterprise (SME)

- International SME network (INSME) is a hub of networks and structure of services among members.
- Definition of an SME varies from one country to another.

The INSME is designed to work as a hub of networks and structures of services aimed at strengthening and enhancing the dissemination and quality of information, service supply, and partnership opportunities for SMEs. The INSME should pursue these objectives mainly through the creation and the use of an Internet portal. This portal will aim at networking service providers with their users, since the existing service providers at the international, national and regional level do not often interact with their customers and with each other sufficiently.

By means of an appropriate management unit, the INSME should also contribute to attain the following objectives:

(a) Enabling SMEs to benefit from globalisation by connecting, extending, and maximising the use of the existing networks for SMEs operating on a geographical, sectoral, and functional basis, thus improving the quantity, quality, and updating of products, information and services available online, and promoting internationalisation and possible integration and coordination, by taking advantage of the advancements in information and communication technologies;

(b) Strengthening the coordination among the networks for SMEs and for the intermediary bodies supporting SMEs already operating at local level, in order to improve and to better qualify their supply as well as to make information and services more accessible to those countries and geographical areas that are less familiar with SME issues; and

(c) Promoting the development of new networks for SMEs and for their intermediaries, the creation of new web sites and Internet portals, with a multiplier effect, especially in countries where they are lacking.

Following the Bologna Conference, the Italian Ministry of Industry, with the support of the Institute for Industrial Promotion (IPI), has promoted the setting up of a specific international Steering Group for the INSME feasibility study (INSME SG). This Steering Group was established in July 2000 in order to benefit from the support by interested countries and international bodies in identifying the objectives and the scope of the feasibility study, receive inputs from the private sector in this regard, and work on the road map for the carrying out the feasibility study.

Composition of INSME Steering Group

The INSME Steering Group was set up in July 2000 on a voluntary basis. It is made up of representatives from the Italian government and from the OECD, co-organisers of the Bologna Conference, as well as of those countries and organisations which attended the conference and manifested their interest in the INSME feasibility study and in its aftermath.

An Italian representative appointed directly by the Italian Minister of Industry chairs the Group and its work is coordinated by IPI, which provides the secretariat of the Group. SG members have the following specifications.

(a) Be a member of a national public administration (ministry or agency) or of an international organisation or NGO concerned with SME policy issues

(b) Be an expert in networks for SMEs and/or intermediary bodies supporting SMEs

(c) Be an expert in Internet applications, in planning and managing Internet portals.

So far, 41 countries, 17 international organisations and 9 networks/intermediaries have joined the Group, whose composition remains open and flexible. Further participation from other OECD and non-OECD countries and from international organisations and NGOs interested in the Bologna process are welcome any time. India is a member country and the SENET project works closely with INSME. Table 1.13 lists the members of the INSME steering group.

The ongoing work of the INSME Secretariat, hosted by IPI, aims at establishing INSME as a formal community of political and technical stakeholders, taking the form of a non-profit association at the international level, focused on innovation and technology transfer services. The association will launch an open, multi-action political dialogue in this area, to encourage the sharing of knowledge, expertise and methodologies as well as to promote new transregional and transnational activities,

TABLE 1.13 Members of the INSME Steering Group

Countries	*International Organisations and NGOs*	*Networks and Intermediaries*
1. Algeria	1. Development Gateway	1. CEGETEC(Uruguay)
2. Argentina	2. Devnet	2. Cyprus Institute of Technology
3. Australia	3. Inter-American Development Bank (IADB)	3. FISME (India)
4. Austria	4. IKED	4. Galicia e-commerce Leveraging Centre (Spain)
5. Brazil	5. OECD	5. MEDEF (France)
6. Canada	6. PECC	6. SARETEK (Spain)
7. Chile	7. UNCTAD	7. SBC (Korea)
8. Chinese Taipei	8. UNIDO	8. UMIS-SMEA (Croatia)
9. Czech republic	9. WIPO	9. Walloon Business House for Europe (Belgium)
10. Egypt	10. World Bank	
11. Finland		
12. France		
13. Germany		
14. Greece		
15. Hungary		
16. India		
17. Israel		
18. Italy		
19. Japan		
20. Mexico		
21. Morocco		
22. New Zealand		
23. Pakistan		
24. Poland		
25. Portugal		
26. Republic of Korea		
27. Romania		
28. Russia		
29. South Africa		
30. Spain		
31. Sweden		
32. Switzerland		
33. Tunisia		
34. Turkey		
35. Vietnam		
Observers		
1. Denmark		
2. Luxembourg		
3. Mauritius		
4. Paraguay		
5. Syria		
6. United Kingdom		

projects, and financing programmes specifically targeted to intermediaries and/or their networks. Moreover, from an operational point of view, INSME aims to strengthen linkages, cooperation and partnerships in this field to maximise the mutual benefits among the members of the community, and contribute to specialising, integrating, to the final benefit of SMEs.

> Visit www.gin.sme.ne.ip for getting information on SMEs in various countries.

By taking advantage of the use of ICT, INSME will act as an information hub, a facilitator and catalyst of existing, relevant intermediaries and their networks promoting the launch of new projects, developing synergies and economies of scale. The network has take the form of a non-profit legal entity such as an international association from 2004.

Definitions of SMEs in Various Countries

Definitions of what constitutes a SME vary from one country to another. In many European countries, they are defined as independent firms with fewer than 250 employees. In Japan, a SME can has as many as 300 employees, according to official definitions, and in the United States 500. Common to all countries, however, is the vital role SMEs play in job creation. In the European Union, such firms provide employment for more than 70 million people, or two-thirds of all EU jobs. In Japan, such firms provide 78 per cent of jobs.

In the Indian context, we have so far not defined medium enterprises clearly. What is neither small nor large is being loosely defined as medium. Further, enterprise encompasses businesses, services and industries. In the broadband of ' small', the discussion extends to medium as well. Another possible connotation for the SMEs is the small manufacturing enterprises.

In India there exists no definition of SMEs. What prevails here is only the concept of small-scale, ancillary, and tiny industry which are related to the historic value of the investment in plant and machinery. In other countries, SMEs are defined on the basis of quantitative and qualitative elements, such as the number of workers employed and/or annual turnover or the level of fixed investment. However, employment is an omnipresent criterion for determining the size of the unit in these countries. The official definitions of Small and Medium Enterprises used in various countries are given in Appendix 1.2.

DISCUSSION FORUM

- Discuss the role of International SME Network in promoting SMEs across the globe.
- Compare the definition of Small-scale Industries in India with the definitions of SMEs in other countries. What are the main distinguishing features?

PROBLEMS FOR SMALL-SCALE INDUSTRIES

We may divide the problems of small industries into two groups—external and internal. External problems are those which result from factors beyond the control of the industrialist, such as the availability of power and other infrastructure facilities required for the smooth running of small-scale industries. Internal problems are those which are not influenced by external forces and relate to organisation, structure, production channel, distribution channel, technical know-how, training, industrial relations, inadequacy of management, and so on. However, the two kinds of problems are not mutually exclusive; they are co-related.

The problems of industries, whether in the small-scale sector or in the organised sector, are almost identical. However, the organised industry being financially very strong and its resources large, it can face its problems more effectively. Given its weak financial structure, the resources of the small sector are limited. The large sector can employ trained and experienced managers; in the small industry, the proprietor or the partners, or if the unit is a company, its director or directors, have to take care of all the problems on their own. The large sector can influence raw material suppliers, customers and, at times, even the government in framing its policies, but the small entrepreneur is helpless in this respect. The latter, therefore, has to look after the entire spectrum of problems despite the great limitations under which he functions. The problems faced by the small-scale industries is given in Box 1.7 and Box 1.8.

Box 1.7 External and Internal Problems Faced by Small-scale Industries

Internal	*External*
(i) Choice of idea	(i) Infrastructure
(ii) Feeble structure	(a) Location
(iii) Faulty planning	(b) Power
(iv) Poor project implementation	(c) Water
(v) Poor management	(d) Post Office and so on
(vi) Poor production	(e) Communication
(vii) Quality	(ii) Financial
(viii) Marketing	(a) Capital
(ix) Inadequate finance	(b) Working capital
(x) Labour problems	(c) Long-term funds
(xi) Capacity utilisation	(d) Recovery
(xii) Lack of vertical and horizontal integration	(iii) Marketing
(xiii) Inadequate training in skills	(iv) Taxation
(xiv) Poor and loose organisation	(v) Raw Material
(xv) Lack of strategies	(vi) Industrial and financial regulations
	(vii) Inspections
	(viii) Technology
	(ix) Policy
	(x) Competitive and volatile environment

Box 1.8 Problems Faced by Small-scale Industries

- Difficulty in obtaining credit from commercial banks because of their general inability to provide security.
- Inability to offer liberal credit terms in the sale of their products.
- Absence of management expertise. Often managed by one person who performs a number of functions usually with no formal training.
- Difficulty in competing with imported products due to high production costs.
- Competition from other local entrepreneurs in the same line of business competing for the limited local market.
- Difficulty in obtaining industrial land in towns and cities. The shortage of industrial land is giving rise to more and more backward operations.
- Under capitalisation.
- Difficulty in identifying appropriate technology and technical assistance.
- The manner in which both the needs of the economy and linkage with the existing industry can best be served.
- Bureaucratic red tape and regulations.
- Surveys of material and human resources of the countries are not available to identify the regions or areas for the development of small-scale and medium-scale industrial enterprises.
- Identification of industrial projects for development.
- Project preparation and evaluation.
- Financial or credit support and investment promotion.
- Consultancy and counselling services.
- Technology development and applications such as the designing of prototype machines for products identified according to country resources and requirements.
- Development of infrastructure of various kinds in the appropriate areas.
- Entrepreneurship development.
- Industrial training and skill formation.
- Linkages between large industries and small industries and the creation of subcontracting facilities at the national, regional, and international levels.
- Quality control and testing facilities.
- Market promotion, both domestic and export.
- Procurement of raw materials and equipment.
- Scientific and industrial research; information collection and dissemination on technology, markets and so on.
- Identification of and assistance to enterprises, which are experiencing difficulties.
- Management and reorganisation or restructuring of small- and/or medium-scale enterprises through various schemes.
- Productivity increases through modernisation.

Contd.

- Incentive measures, by industry and by area.
- Local initiative.
- Creation of institutions and changes in prevailing institutional arrangements.
- Regional and international technical and financial assistance.
- Cooperation among developing countries.

PROSPECTS OF THE SMALL-SCALE INDUSTRIES IN A FREE ECONOMY

The small-scale industries occupy a very important position in any economy. Traditionally, they produce certain specialised items over which they enjoy virtual monopoly because of the skill and expertise developed over the years. Many items produced in the small-scale sector are also used as raw materials in the large-scale industry. Thus, small-scale industries contribute to large-scale production in no small measure. In a controlled economy, the small-scale industries are protected from competition from the large-scale sector by means of subsidies, grants, monetary incentives from the government, reservation of certain items of production in the small-scale sector, and so on. In a free economy, however, the small-scale industrial sector is not insulated from competition from the large-scale sector for their survival and growth; they have to face competition from the large-scale sector with their own ingenuity and resources. For this purpose, they will have to take effective measures in the following areas.

Visit www.lubindia.org to learn more about the problems and prospects of SSI in India.

Quality control

The products of large-scale industries are of high quality and precision. In a free economy, the products of the small-scale industry can compete with those of the large-scale sector only if the high quality is maintained. To meet the competition from the large-scale sector, small-scale industries should get a good share of the export market where high-quality products are essential. It would thus be necessary for small-scale industrial units to introduce quality control measures. If necessary, they can enlist the assistance of reputed outside agencies in this regard. In a competitive environment where low-cost quality output is necessary, the choice of technology assumes great importance. In a free economy, small-scale units would have to select such technology from the available alternatives which would generate cost-efficient and high-quality optimal output. In order to ensure this, small-scale entrepreneurs should preferably have a technical background or, at least, an understanding of the technical processes involved in production.

Marketing Arrangements

Many small-scale units have perished because of their inability to sell what they produced. This happened because of lack of proper marketing arrangements. In a free economy, inadequate marketing arrangements would only accelerate the downfall of small-scale units, as they would have to counter competition from the large-scale sector, which enjoys a ready market for its products. The small-scale units need to conduct systematic and continuous market research and arrange to tie up with prospective buyers in order that their products may be readily sold.

Advertisement

The products of the large-scale sector are widely advertised on TV, radio and newspapers and are well known. Since small-scale industrial units suffer from resource inadequacy, most of them cannot advertise their products on the mass media. As a result, the products of the small-scale units remain largely unfamiliar to the public and the units find it very difficult to attain their sales goals. But in a free economy, where the small-scale units will have to thrive by competing with the large-scale sector, the former must adequately publicise their products. Some funds need to be set aside for this purpose. Although initially the profits may be low, such publicity expenditure will serve the cause of future profitability.

Recovery of Receivables

The funds of many small-scale industrial units are blocked in receivables. As a result, recycling of funds is affected and production suffers. In a competitive environment, it must be ensured that receivable dues are realised without delay. The small-scale units will have to make special effort to collect their dues for their growth. They may have to utilise the services of factoring companies for the purpose.

Professionalism in Management

Many small-scale industrial units have suffered an account of proprietary management. Barring very tiny and small units, management of small-scale industries has become complex. Hence, small-scale industrial units must be managed by professional managers in order to compete successfully with the large-scale sector, which is professionally managed.

Inventory Control

Proper inventory control is an essential prerequisite for optimum production of an industrial unit. Yet, a large number of small-scale units remain unaware of this requirement. As a result, they have to remain content with a sub-optimal level of production that affects their profitability adversely. It is, therefore, imperative that small-scale units familiarise themselves with inventory control techniques and introduce them at work, particularly in the context of competition in a free economy from the large-scale sector where modern inventory control techniques are widely adopted. Many small-scale units have become sick from neglecting the above-mentioned areas. The other causes of sickness of small-scale industries are mainly as given below.

- Diversion of funds
- Dissension among partners
- Shortage of power

- Technological obsolescence
- Overdependence on purchases by government

The small-scale units need to scrutinise these areas properly to guard against sickness. India is now largely a free-enterprise economy. Despite a liberalised economy, the small-scale sector in India is performing well. The policies of the government are also directed towards the growth of the small-scale industries. The government has since enhanced the investment limit in plant and machinery from Rs 60 lakh (Rs 75 lakh for ancillaries and exporting SSIs) to a common limit of Rs 1 crore. This would encourage modernisation of the existing small-scale industries with the adoption of appropriate new technologies in the sector and stimulate the growth of new small-scale units. The government is also keen to provide adequate institutional credit to the small scale sector by ensuring that working capital limits of these units are fixed by the financial institutions at a minimum of 20 per cent of their projected turnover, as prescribed by the Nayak Committee. The government plans to educate the small-scale entrepreneurs about economies of scale, arrange for upgradation of skills and technologies and strengthen export capabilities for the promotion of small-scale industries. In India, the small-scale industries are, therefore, poised for growth and development provided they adopt the above strategies to overcome competition from the large-scale sector. The prospects of small-scale industries in a free economy are quite encouraging provided the government plays a supportive role and adequate measures are taken to meet the challenges posed up by the large-scale sector.

Opportunities

By its less capital intensive and high labour absorption nature, the SSI sector has made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strengths of India's traditional skills and knowledge, by an infusion of technology, capital, and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and demand structure. The diversity in production systems and demand structures will ensure long term coexistence of many layers of demand for consumer products/technologies/processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value addition, and sophistication. This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the government have ensured the presence of this sector in a wide range of products, particularly consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology, and marketing. The process of liberalisation coupled with government support will, therefore, attract the infusion of just these in the sector. The small industry sector has performed exceedingly well and enabled India to achieve a wide measure of industrial growth and diversification.

DISCUSSION FORUM

- Discuss in small groups the external and internal problems faced by SSIs.
- Explain the prospects for small business enterprises.

SUMMARY

- The small-scale industry sector has, over the past six decades, acquired a prominent place in the socio-economic development of the country. The sector has exhibited positive growth trends even during periods when other sectors of the economy experienced either negative or nominal growth.
- Various policy initiatives undertaken by the government, whether by way of incentives or protection, have helped the sector in acquiring the status of a major contributor in the growth process. In fact, though the SSI sector has demonstrated its strengths, the basic accent of small-scale industrial policy has been defensive, aiming to insulate the sector from the dynamics of competitive growth.
- The process of liberalisation and economic reforms, since 1991, while creating tremendous opportunities for the growth of SSIs, has, however thrown up new challenges to the sector.
- According to the Third SSI Census, the size of the total SSI sector is estimated to be over 1 crore (1,05,21,190). About 42.26 per cent of these units were SSIs; the rest were SSSBEs. The percentage of ancillaries among the SSIs was 2.98.
- In India there exists no definition of Small & Medium Enterprises (SMEs). What prevails here is only the concept of small-scale, ancillary and tiny industry which are related to the historic value of the investment in plant and machinery. In other countries, SMEs are defined on the basis of both quantitative and qualitative elements, such as the number of workers employed and/or annual turnover or the level of fixed investment. However, employment is an omnipresent criterion for determining the size of the unit in these countries.
- The problems of small industries may be divided into two groups—external and internal. External problems are those which result from factors beyond the control of the industrialist such as the availability of power and other infrastructure facilities required for the smooth running of small-scale industries. Internal problems are those which are not influenced by external forces.
- In the changed environment, the SSI sector needs to integrate itself with the overall domestic economy and global markets by gearing itself to greater interdependence by networking and subcontracting. To satisfactorily meet the present as well as future requirements of the sector and the national economy, the policies and projects for the SSI sector will have to be effective and growth oriented so as to achieve competitiveness, collective approach, and capacity to upgrade.

KEY WORDS

- Small-scale Industry (SSI)
- Globalisation
- World Trade Organization (WTO)
- General Agreement on Tariff and Trade (GATT)

- International Monetary Fund (IMF)
- International Trade Organisation (ITO)
- Quantitative Restrictions (QR)
- Trade Related Investment Measures (TRIMS)
- Trade Related Aspects of Intellectual Property Rights (TRIPS)
- Registered SSI
- Unregistered SSI
- Small-scale Service and Business Enterprises (SSSBEs)
- Tiny unit
- Women entrepreneur
- Ancillary unit
- Export-Oriented Unit (EOU)
- Handicrafts
- Handloom
- Khadi, Village and Cottage Industries
- Coir
- Sericulture
- Powerloom
- Industrial policy
- Sick unit
- Third All India Census
- Small and Medium Enterprises (SME)
- International Network of SME (INSME)

EXERCISES

Activity 1.1 Group Assignment

Divide the class into small groups consisting of 5–7 members. Each group should visit the local Small-scale Industry, study the problems of the enterprise and prepare 20-minute power point presentation on the problems faced by the enterprise. All the groups have to make the presentation in front of the panel consisting of three professors of your institute. After all the presentations are over, the panel has to decide the winner group and the first and second runner-up.

Request your professors to lend their supervision to this exercise.

Activity 1.2 Report Writing

Study the Second and Third All India Census on SSI and prepare a comparative analysis of the results of the survey. Prepare a brief report containing the gist of the results.

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Trade-wise, sector-wise or state-wise a number of small organisations are operating in the country to serve the cause of small-scale industries. However, a well-knit, well-disciplined organisation equipped to solve the economic problems and the one, which can create an effective lobby to promote SSIs, is still wanting.

New trends are emerging in the national economy in sympathy with the shifting dimensions of the global economy. The developed countries (which have almost reached a saturation point in their economic growth) are fiddling with the idea of economic domination of the underdeveloped or developing countries. While this phenomenon could be viewed as a desperate attempt on their part for their own survival, it is the duty of nationally conscious Indian entrepreneurs to contribute their mite to bring about a qualitative change in the economy. Keeping such noble sentiments in mind, a few chosen captains of our small-scale units, committed to organise the small-scale sector on a firm footing, have founded the Laghu Udgyog Bharati.

2. *www.ssi.nic.in*

The Ministry of Small-scale Industries and Agro and Rural Industries (SSI and ARI) was created on October 14, 1999, as a nodal ministry for formulating policy, promotion, development and protection of small-scale industries in India. The ministry was bifurcated into the Ministry of Small-scale Industries and Ministry of Agro and Rural Industries on September 1, 2001. The Ministry of Small-scale Industries is the nodal ministry for the formulation of policy, promotion, development and protection of small-scale industries in India.

The Ministry of Small-scale Industries designs and implements the policies through its field organisations for the promotion and growth of small-scale industries. The ministry also performs the functions of policy advocacy on behalf of the small-scale industries sector with other ministries/departments.

The implementation of the policies and various programmes/schemes for providing infrastructure and support services to small enterprises is undertaken through its Attached Office, namely, Small Industry Development Organisation (SIDO) and the public sector undertaking—National Small Industries Corporation Ltd. (NSIC).

3. *www.laghu-udyog.com*

It is the official web portal of the SSI in India which gives access to committee reports, priced publications, RBI circulars and overview of SSI, definition of SSI, performance, statistics, and census.

4. *www.techsmall.com*

- The website has been sponsored by the Small Industries Development Bank of India (SIDBI).

- Technical guidance provided by United Nations—Asian Pacific Centre for Transfer of Technology (UN-APCTT).
- The database created with support from the Office of DC (SSI), Ministry of SSI and ARI, GOI.

5. *http://www.gin.sme.ne.ip*

Global information network of SMEs. This home page will provide access to information on SMEs (Small and Medium Enterprises) all over the world, including Japan, U.S.A., Canada, France, Germany, Italy, U.K., and the European Commission.

ANNEXURE 1.1

Comprehensive Policy Package for Small-scale and Tiny Sector (Announced on August 30–31, 2000)

1.0 Introduction

1.1 The Small-scale Industry Sector has emerged as India's engine of growth in the New Millennium. By the end of March 2000, the SSI sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of total exports from the country. Through over 32 lakh units, the sector provided employment to about 18 million people.

1.2 The ongoing programme of Economic Reforms based upon the principle of liberalisation, globalisation and privatisation and the changes in the international economic scene including the emergence of World Trade Organisation (WTO), have brought certain challenges and several new opportunities before the SSI sector. The most important challenge faced by the sector is that of growing competition both globally and domestically. At the same time sector has also been facing some problems which relate to credit, infrastructure, technology, marketing, delayed payment hassles on account of so many rules and regulations. In order to enable this sector to avail the opportunities and play its role as an engine of growth, it is essential to address these problems effectively and urgently.

1.3 With a view to provide more focused attention on the development of SSI, the Government of India created a new Ministry of Small-scale Industries and Agro and Rural Industries, in October 1999. Immediately after the formation of the ministry, a Mission for the Millennium giving a blueprint for small-scale and village industries was announced. To carve out a road map for this sector in the New millennium, the Hon'ble Prime Minister constituted a Group of Ministers under the Chairmanship of L.K. Advani, the Home Minister of India, in June 2000. The background material for the consideration of the Group of Ministers was provided by the Interim Report of the S.P. Gupta Study Team constituted by the Planning Commission.

1.4 The Group of Ministers considered the recommendations and came out with a Comprehensive Policy Package for the small-scale and tiny sector which was announced by the Hon'ble Prime Minister at the first ever National Conference on Small-scale Industries organised by the Ministry of SSI and ARI at Vigyan Bhavan, New Delhi, on August 30, 2000. While some components of the policy package were announced by the Hon'ble Prime Minister on August 30, 2000, some others including the Tiny Sector Policy Package were announced by the Ministry of SSI and ARI on August 31, 2000 at the meeting of the SSI Board.

SMALL-SCALE SECTOR

2.0 Policy Support

2.1 The investment limit for the tiny sector will continue to be Rs 25 lakh.

2.2 The investment limit for the SSI sector will continue to be at Rs 1 crore.

2.3 The Ministry of SSI and ARI will bring out a specific list of hi-tech and export-oriented industries which would require the investment limit to be raised upto Rs 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.

2.4 The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of Parliament.

3.0 Fiscal Support

3.1 To improve the competitiveness of Small-scale sector, the exemption for excise duty limit raised from Rs 50 lakhs to Rs 1 crore.

4.0 Support

4.1 The composite loans limit raised from Rs 10 lakh to Rs 25 lakh.

4.2 The Small-scale Service and Business (Industry Related) Enterprises (SSSBEs) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.

4.3 In the National Equity Fund Scheme, the project cost limit will be raised from Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Rs 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum.

4.4 The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs 25 lakh from the present limit of Rs 10 lakh.

4.5 The Department of Economic Affairs will appoint a Task Force to suggest revitalisation/restructuring of the State Finance Corporations.

4.6 The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks.

5.0 Infrastructure Support

5.1 The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas.

5.2 Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the Planning Commission.

5.3 A Plan Scheme for Cluster Development will be drawn up.

5.4 The funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centres, for Cluster Development and for setting up of IIDs in the North-East including Sikkim.

6.0 Technological Support and Quality Improvement

6.1 Capital subsidy of 12 per cent for investment in technology in selected sectors. An interministerial Committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.

6.2 To encourage Total Quality Management, the scheme of granting Rs 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e. till the end of the 10th plan.

6.3 Setting up of incubation centres in Sunrise Industries will be supported.

6.4 The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.

6.5 SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R&D institutions in India and abroad and circulate it among industry associations for the dissemination of the latest technology related information.

6.6 Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonise the same with SIDBI.

6.7 One-time capital grant of 50 per cent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

7.0 Marketing Support

7.1 SIDO will have a Market Development Assistance (MDA) Programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a Plan Scheme.

7.2 The Vendor Development Programme, Buyer-Seller Meets and Exhibitions will take place more often and at dispersed locations.

8.0 Streamlining Inspections/Rules and Regulations

8.1 To minimise harassment to Small-scale Sector a group will be set up to recommend within three months, means of streamlining inspections. This will include repeal of laws and regulations applicable to the sector that have since become redundant.

8.2 Self-certification will be progressively encouraged in lieu of inspections, which should be prescribed under the three following conditions:

- On receipt of specific complaint;
- Selection of unit for sample check (Say 10 per cent of total units); and
- For audit and safety purposes.

9.0 Entrepreneurship Development

9.1 Capacity building in the SSI sector, both for entrepreneurs as well as workers, will be given top priority. The Ministry of SSI and ARI and Ministry of Labour will work out the strategy jointly.

10.0 Facilitating Prompt Payment

10.1 The Reserve Bank of India is being requested to appoint a Task Force to go into the question of strengthening and popularising factoring services, without recourse to the SSI suppliers. The Task Force shall give its report within six months of its constitution.

10.2 RBI is being requested to take up with banks, the question of sub-allocating overall limits to the large borrowers specifically for meeting the payment obligations in respect of purchases from the SSIs, either on case basis or on bills basis.

11.0 Rehabilitation of Sick Units

11.1 RBI is being requested to draw up revised guidelines for the rehabilitation of currently sick but potentially viable SSI units. Such guidelines should be detailed, transparent and non-discretionary.

12.0 Promoting Rural Industries

12.1 To support the Handloom Sector "Deendayal Hathkarga Protsahan Yojna" has been announced. The scheme has a total financial implication of Rs 447 crore and will provide comprehensive financial and infrastructural support to weavers.

12.2 The government is working out new comprehensive package to strengthen Khadi and Village Industries that will further upgrade the skills of khadi workers.

13.0 Improving Database

13.1 A fresh Census of Small-scale Industries will be conducted covering inter-alia, the incidence of sickness and its causes.

TINY SECTOR

14.0 Policy Support

14.1 The investment limit for the tiny sector will continue to be Rs 25 lakh.

14.2 Under the Prime Minister's Rozgar Yojna, which finances setting up of micro enterprises and generates employment for the educated unemployed, the family income eligibility limit of Rs 24,000 per annum is being revised to Rs 40,000 per annum.

15.0 Credit Support

15.1 The Nayak Committee's recommendations regarding provision of 20 per cent of the projected turnover as working capital is being recommended to financial institutions and banks. In respect of tiny units also 20 per cent of the projected annual turnover would qualify for working capital loan.

15.2 The National Small Industries Corporation will continue to give composite loans up to Rs 25 lakh to the tiny sector and continue to charge one per cent concessional interest rate.

15.3 SIDBI will continue to give concessional rate of refinance to the tiny sector which is now at 10.5 per cent as compared to 12 per cent for the SSI sector. This policy will continue.

15.4 In the National Equity Fund Scheme, the project cost limit will be raised from Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Rs 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum. Under the National Equity Fund Scheme, 30 per cent of the investment will be earmarked for the tiny sector.

16.0 Infrastructure Support

16.1 The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 per cent reservation for rural areas. Under this scheme, 50 per cent of the plots will be earmarked for the tiny sector (as against 40 per cent done earlier).

16.2 Under the National Programme for Rural Industrialisation, cluster development is being taken up by KVIC, SIDO, SIDBI and NABARD. The major beneficiaries of Cluster Development Programme will be tiny sector units. The sponsoring organisation for each cluster will provide for design development, capacity building, technology intervention and consortium marketing. A Cluster Development Fund will be created under the Plan.

17.0 Technological Support

17.1 Under the Scheme of Capital Subsidy of 12 per cent for investment in technology upgradation in selected sectors, preference will be given to the tiny sector.

18.0 Marketing Support

18.1 Preference will be given to the tiny sector while organising Buyer-Seller Meets, Vendor Development Programmes and Exhibitions.

ANNEXURE 1.2

Country	*Official definition of SME*	*Time period of data*	*Source*
Albania	500	1994-95	United Nations Economic Commission for Europe
Argentina	200	1993	Inter-American Development Bank-SME Observatory
Australia	100	1991	APEC, 1994: The APEC survey on small and medium enterprises
Austria	250	1996	Eurostat
Azerbaijan	250	1996–97	United Nations Economic Commission for Europe
Belarus	250	1996–97	United Nations Economic Commission for Europe
Belgium	250	1996–97	Eurostat
Brazil	250	1994	IBGE-census 1994
Brunei	100	1994	APEC survey
Bulgaria	250	1995–97, 1999	Center for International Private Enterprises, Main Characteristics of SME: Bulgaria Country Report, Institute for Market Economics
Burundi	100	90s	Regional Program on Enterprise Development Paper #30
Cameroon	200	90s	Regional Program on Enterprise Development Paper #106
Canada	500	1990–93, 1996, 1998	Presentation to the standing committee on industry, science and technology, APEC survey, Globalisation and SME 1997(OECD)
Chile	200	1996	Inter-American Development Bank- SME Observatory
Colombia	200	1990	Inter-American Development Bank- SME Observatory
Costa Rica	100	1990, 1992–95	Inter-American Development Bank- SME Observatory
Cote d' Ivoire	200	90s	Regional Program on Enterprise Development Paper #106, #109
Croatia	250	1998	United Nation Economic Commission For Europe, Center For International Private Enterprise
Czech Republic	250	1996	United Nations Economics Commission For Europe
Denmark	500	1991–92	Globalisation and SME 1997(OECD), International Labour Organisation
Ecuador	200	1994	Inter-American Development Bank SME Observatory
El Salvador	150	1993	Inter-American Development Bank SME Observatory
Estonia	250	1996–97	United Nations Economic Commission For Europe
Finland	250	1996–97	Eurostat Database
France	500	1991–96	International Labor Organisation, OECD SME outlook

Contd.

Georgia	250	1996–97	United Nations Economic Commission for Europe
Germany	500	1991, 1993–98	Globalisation and SME 1997 (OECD), Fourth European Conference Paper
Ghana	200	90s	Regional Program on Enterprise Development Paper #106, #109
Greece	500	1988	OECD
Guatemala	200	1990	Inter American Development Bank-SME observatory
Honduras	150	1990	Inter American Development Bank-SME observatory
Hong Kong China	100	1993–2000	APEC survey, Legislative Council Jan 17, 2005
Hungary	250	1997	United Nations Economic Commission for Europe
Iceland	100	1996	Eurostat Database
Indonesia	100	1993	OECD Paper, Speech of state minister of cooperative and SME in Indonesia
Ireland	500	1997	Globalisation and SME 1997 (OECD)
Italy	200	1995	Russian SME Resource Center, Eurostat Database
Japan	300	1991, 1994, 1996, 1998, 1999	Globalisation and SME (OECD), SME Agency in Japan
Kazakhstan	500	1994	United Nations Economic Commission for Europe
Korea,Rep.	300	1992-93, 1997, 1999	APEC Survey, OECD, Paper Title " Bank Loans to Micro Enterprises, SMEs & Poor households in Korea"
Kyrgyz Republic	250	1996-97	United Nations Economic Commission for Europe
Latvia	500	1994–95	United Nations Economic Commission for Europe
Luxembourg	250	1996	Eurostat Database
Mexico	250	1990-97	Inter American Development Bank-SME Observatory, APEC Survey
Netherlands	100	1991–98	G8 Global Market Place For SME, Globalisation and SME 1997 (OECD)
New Zealand	100	1991, 1998–00	SMEs in New Zealand, Structure and Dynamics, APEC Survey
Nicaragaua	100	1992	Inter American Development Bank
Nigeria	200	2000	Regional Program on Enterprise Development Paper #118
Norway	100	1994, 1990	European Industrial Relations Observatory
Panama	200	1992	Inter American Development Bank – SME Observatory
Peru	200	1994	Inter American Development Bank – SME Observatory
Philippines	200	1993–95	APEC Survey, Situation Analysis of SME in Laguna
Poland	250	1996-97, 1999	United Nations Economic Commission for Europe

Contd.

Portugal	500	1991, 1995	OECD
Romania	250	1996–99	United Nations Economic Commission for Europe, Center for International Private Enterprise
Russian Federation	250	1996–97	United Nations Economic Commission for Europe
Yugoslavia Fed. Rep.	250	1999	Centre for International Private Enterprise
Singapore	100	1991, 1993	APEC Survey
Slovak Republic	500	1994–95	United Nations Economic Commission for Europe
Slovenia	500	1994–95	United Nations Economic Commission for Europe, SME in Central and Eastern Europe, Barriers and Solutions by F. Welter
South Africa	100	1988	World Bank Report
Spain	500	1991, 1995	OECD
Sweden	200	1991, 1996	OECD
Switzerland	500	1991, 1995, 1996	OECD
Taiwan	200	1993	APEC Survey
Tajikistan	500	1994, 1995	United Nations Economic Commission for Europe
Tanzania	200	90s	Regional Program on Enterprise Development Paper #106, #109
Thailand	200	1991, 1993	APEC Survey
Turkey	200	1992, 1997	SME in Turkey
Ukraine	250	1996	United Nations Economic Commission for Europe
United Kingdom	250	1994, 1996-00	Department of Trade and Industry, UK
United States	500	1990-98	Statistics of US Business: Micro Data and Tables
Vietnam	200	1995	Nomura Research Institute Papers
Zambia	200	90s	Regional Program on Enterprise Development Paper #106, #109
Zimbabwe	200	90s	Regional Program on Enterprise Development Paper #106, #109

2

Entrepreneurship

Polyhydron Private Limited, Karnataka, India, an example of entrepreneurship.

"The entrepreneur is essentially a visualizer and an actualizer. He can visualize something, and when he visualizes it he sees exactly how to make it happen."

—Robert Schwartz

Learning Objectives

- To understand the importance of entrepreneurship
- To introduce concepts of entrepreneurship
- To identify the characteristics of a successful entrepreneur
- To identify various types of entrepreneurs
- To identify the myths of entrepreneurship
- To discuss entrepreneurial development models
- To present the problems faced by entrepreneurs and capacity building for entrepreneurship.
- To present the profiles of some successful entrepreneurs

IMPORTANCE OF ENTREPRENEURSHIP

Entrepreneurial development today has assumed special significance, since it is a key to economic development. The objectives of industrial development, regional growth, and employment generation depend upon entrepreneurial development. Entrepreneurs are, thus the seeds of industrial development and the fruits of industrial development are greater employment opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the form of income tax, sales tax, export duties, import duties, and balanced regional development.

In practice, entrepreneurs have historically altered the direction of national economies, industries, or markets. They have invented new products and developed organisations and the means of production to bring them to market. They have introduced quantum leaps in technology and more productive uses. They have forced the reallocation of resources away from existing users to new and more productive users. Many innovations have transformed the society and altered our pattern of living, and many services have been introduced to alter or create new service industries.

India needs entrepreneurs. It needs them for two reasons: to capitalise on new opportunities and to create wealth and new jobs. A recent McKinsey & Company–Nasscom report estimates that India needs at least 8,000 new businesses to achieve its target of building a $ 87, billion IT sector by 2008. Similarly, by 2015, 110–130 million Indian citizens will be searching for jobs, including 80–100 million looking for their first jobs; that seven times Australia's population. This does not include disguised unemployment of over 50 per cent among the 230 million employed in rural India. Since traditional large employers—including the government and the old economy players—may find it difficult to sustain this level of employment in the future, it is entrepreneurs who will create these new jobs and opportunities.

Fortunately, today's knowledge-based economy is fertile ground for entrepreneurs in India. The success stories of businesses built on a great idea executed by a talented team have great appeal in India, where access to capital is scarce and regulation has often created barriers to success. And young Indians have a dream: to be the next Sabeer Bhatia of India. Estimates indicate that several thousand "new economy" businesses were launched in India. This is not just a "big-town" phenomenon. For example, when McKinsey & Company launched India Venture 2000, a business plan competition to catalyse entrepreneurship in India, many of the 4,500 teams that participated were from small towns such as Meerut, Siliguri, Warangal, and Pollachi.

Charms of Being An Entrepreneur

The most exciting part of entrepreneurship is that you are your own master. When you are an employee, you work for others according to their plans, whims and fancies. In an entrepreneurship, it is you who set the goal, plan the action and reap the satisfaction and rewards of having achieved the goal.

Why Should You Become an Entrepreneur?

- You will be your own boss and boss to other people and make decisions that
- are crucial to the business' success or failure.
- You will have the chance to put your ideas into practice.
- You will make money for yourself rather than for someone else.
- You may participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- You will have the chance to work directly with your customers.
- You will have the personal satisfaction of creating and running a successful business.
- You will be able to work in a field or area that you really enjoy.
- You will have the chance to build retirement value (for example, by selling the business when you retire).

Economic development involves more than just raising the per capita income. It is a process of total and radical change in the socio-economic structure. The expansion of output and social change result in growth that will set parameters for future

Box 2.1 Difference between a Manager and an Entrepreneur

Entrepreneur	*Manager*
• Own boss	Salaried employee
• Takes own decisions	Executes the decisions of the owner
• Hires employees	He is an employee
• Uncertain rewards which can be unlimited	Fixed rewards and salary

growth. In the process of economic growth, the factors on the supply side allow expanding output, while those on the demand side determine how far growth will proceed. Failure to fully utilise the resources reduces potential capital formation and restricts future growth. What, then, is expected of an entrepreneur? To be precise, what are his functions? What is the meaning of the word entrepreneur?

CONCEPTS OF ENTREPRENEURSHIP

"Entrepreneur" is a person who creates an enterprise. The process of creation is called as "entrepreneurship". The word "entrepreneur" has been taken from French, where it was originally meant to designate an organiser of musical and other entertainment.

The word "entrepreneur" is derived from the French verb *enterprendre, which* means '*to undertake*'. This refers to those who "undertook" the risk of new enterprises. In the earlier part of the 16^{th} century, the French men who organised and led military expeditions were referred to as entrepreneurs. French tradition regarded an entrepreneur as a person translating a profitable idea into a productive activity. During the year 1700, the architects and contractors of public works were called entrepreneurs. Quensnay recognised a rich farmer as an entrepreneur who manages and makes his business profitable by his intelligence and wealth.

SNAPSHOT

- Entrepreneurial Development is a key to socio-economic transformation of the region.
- Entrepreneurship can be defined as a process of action an entrepreneur undertakes to establish his enterprise.
- The word "entrepreneur" is derived from the French Verb *enterprendre*, means '*to undertake*'. This refers to those who "undertook" the risk of new enterprises.
- Entrepreneurial development process can be explained in five stages.

In economics and commerce, an entrepreneur is an economic leader who possesses the ability to recognise opportunities for the successful introduction of new commodities, new techniques, and new sources of supply, and to assemble the necessary plant and equipment, management and labour force, and organise them into a running concern. Whatever the economic and political setup of a country, entrepreneurship is essential for economic development.

Entrepreneurship can be defined as a process of action an entrepreneur undertakes to establish his enterprise. According to D.C. McClelland, entrepreneurship is doing things in a new and better way and decision-making under the condition of uncertainty. Benjamin Higgins has defined entrepreneurship as the function of foreseeing investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging for the supply of raw materials, and selecting to managers for the day-to-day operation of the enterprise. According to Peter F. Drucker, entrepreneurship is neither a science nor an art. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, the ends largely define what contributes knowledge in practice.

In early 16th century, the entrepreneur was denoted as a dealer who bought a thing at a certain price and sold it at uncertain price, making a profit.

Various Definitions of an Entrepreneur

An individual who bears the risk of operating a business in the face of uncertainty about the future conditions.

Encyclopedia Britannica

He is the one who innovates, and introduces something new in the economy.

—Joseph A. Schumpeter

He shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.

—J. B. Say (French economist)

He searches for change, responds to it and exploits opportunities. Innovation is the specific tool of an entrepreneur.

—Peter F. Drucker

Entrepreneurs are people who have the ability to see and evaluate business opportunities; together with the necessary resources to take advantage of them; and to intimate appropriate action to ensure success.

—International Labour Organisation (ILO)

He is the one who is endowed with more than average capacities in the task of organising and coordinating the various factors of production. He is a pioneer and captain of industry.

—Francis A. Walker

He is a critical factor in economic development and an integral part of economic transformation.

—William Diamond

He is a person who is able to look at the environment, identify opportunities to improve the environment, marshall resources, and implement action to maximise those opportunities.

—Robert E. Nelson

He is the agent who buys means of production at a certain price in order to combine them into a product that is going to sell at prices that are certain at the moment at which he commits himself to his costs.

—Cantillion

The word entrepreneur is derived from a Sanskrit word called "Antaraprerana".

—Poornima Charantimath

Entrepreneurial Development Process

Entrepreneurial development can be explained in five stages.

Kilby, Peter (1971). *Entrepreneurship and Economic development.* New York: Press.

Stage 1 Perceiving, identifying and evaluating an opportunity

Stage 2 Drawing up a business plan

Stage 3 Marshalling resources

Stage 4 Creating the enterprise

Stage 5 Consolidation and management

Identifying and evaluating an opportunity is a difficult task. Opportunities do not appear from nowhere. One has to be "watchful" for opportunities. Ideas can come from various sources. The opportunities should be evaluated carefully. After having identified the project, the next step is to develop a plan for the venture. A further step in the process is to assess the resource position. Once the enterprise is established, an entrepreneur should always look forward to indefinite future, to growth, development, or at least continuation.

DISCUSSION FORUM

- Discuss the importance of entrepreneurship.
- Define the terms: entrepreneur, enterprise, entrepreneurship.
- Identify the charms of being an entrepreneur.
- Explain the entrepreneurial development process.

CHARACTERISTICS OF A SUCCESSFUL ENTREPRENEUR

The following are some characteristics that every successful entrepreneur must possess in adequate measure.

(a) Creativity: The terms creativity and innovation are often used to mean the same thing, but each has a unique connotation. Creativity is "the ability to bring something new into existence". This definition emphasises the "ability", not the "activity," of bringing something new into existence. A person may therefore conceive of something new and envision how it will be useful, but not necessarily take the necessary action to make it a reality. Innovation is the process of doing new things, but creativity is a prerequisite to innovation.

SNAPSHOT

The Characteristics of a Successful Entrepreneur

- Creativity
- Innovation
- Dynamism
- Leadership
- Teambuilding
- Achievement motivation
- Problem solving
- Goal orientation
- Risk taking and decision making ability
- Commitment

Ideas usually evolve through a creative process whereby imaginative people bring them into existence, nurture them, and develop them successfully. The creative process for an idea involves five stages—germination, preparation, incubation, illumination, and verification. A model of the creative process is shown in Figure 2.1.

Germination: The germination stage is the seeding process. It is not like planting seed as a farmer does to grow corn, but more like the natural seeding that occurs when pollinated flower seeds, scattered by the wind, find fertile ground to take root. The exact manner in which an idea is germinated is a mystery; it is not something that can be examined under a microscope. However, most creative ideas can be traced to an individual's interest in or curiosity about a specific problem or area of study.

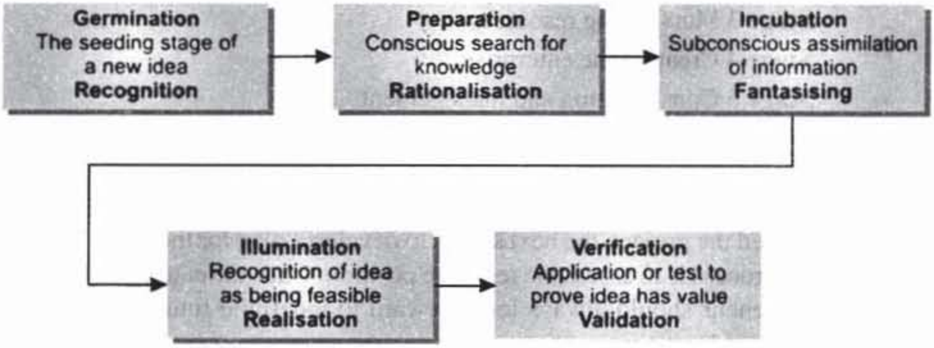

Figure 2.1 ■ The Creative Process

Preparation: Once the seed of curiosity has taken form as a focused idea, creative people embark on a conscious search for answers. If it is a problem they are trying to solve—such as Alexander Graham Bell's determination to help those with impaired hearing—then they begin an intellectual journey, seeking information about the problem and how others have tried to resolve it. If it is an idea for a new product or service, then market research is the business equivalent. Inventors will set up laboratory experiments, designers will begin engineering new product ideas, and marketeers will study consumer-buying habits. Any individual with an idea will consequently think about it, concentrating his or her energies on rational extensions of the idea and how it might become a reality. In rare instances, the preparation stage will produce results. More often, conscious deliberation will only overload the mind, but the effort is important to gather information and knowledge vital to an eventual solution.

Incubation: Individuals sometimes concentrate intensely on an idea, but, more often, they simply allow ideas time to grow without intentional effort. We all have heard about the brilliant "flashes" of genius, but few great ideas come from thunderbolts of insight. Most evolve in the minds of creative people while they go about other activities. The idea, once seeded and given substance through preparation is put on a back burner; the subconscious mind is allowed time to assimilate information.

Incubation is a stage of "mulling it over" while the subconscious intellect assumes control of the creative process. This is a crucial aspect of creativity because when we consciously focus on a problem, we behave rationally to attempt to find systematic resolutions. When we rely on subconscious processes, our minds are untrammeleed by the limitations of human logic. The subconscious mind is allowed to wander and to pursue fantasies. It is, therefore, open to unusual information and knowledge that we cannot assimilate in a conscious state. This subconscious process has been called the art of synaptic, a word coined by W.J.J. Gordon in 1961. Synaptic, derived from Greek, means a joining together of different and often unrelated ideas. Therefore, when a person has consciously worked to resolve a problem without success, allowing it to incubate in the subconscious will often lead to a resolution.

Illumination: The fourth stage, occurs when the idea resurfaces as a realistic creation. There will be a moment in time when the individual can say, "Oh, see!". Bell heard the twang of the steel reed, Fleming watched his penicillin attack infectious bacteria under microscope, and Art Fry envisioned his gumlined notepads in use. The fable of the thunderbolt is captured in this moment of illumination—even though the often long and frustrating years of preparation and incubation have been forgotten.

Illumination may be triggered by an opportune incident, as Bell discovered harmonic telegraphy in the accidental twang created by Watson. But there is little doubt that Bell would have had his moment of illumination, triggered perhaps by another incident or simply manifested through hard work. The point, of course, is that he was prepared and the idea was incubated. Bell was ready for an opportune incident and able to recognise its importance when it occurred.

The important point is that most creative people go through many cycles of preparation and incubation, searching for that catalyst of an incident that can give their idea full meaning.

When a cycle of creative behaviour does not result in a catalytic event, the cycle is repeated until the idea blossoms or dies. This stage is critical for entrepreneurs because ideas, by themselves, have little meaning. Reaching the illumination stage separates daydreamers and tinkerers from creative people who find a way to transmute value.

Verification: An idea once illuminated in the mind of an individual continues to have little meaning until verified as realistic and useful. Entrepreneurial effort is essential to translate an illuminated idea into a verified, realistic, and useful application. Verification is a stage of development that refines knowledge into application. This is often tedious and requires perseverance by an individual committed to finding a way to "harvest" the practical results of his or her creation. During this stage, many ideas fall by the wayside as they prove to be impossible or have little value. More often, a good idea has already been developed, or the aspiring entrepreneur finds that competitors already exist. Inventors quite often come to this harsh conclusion when they seek to patent their products only to discover similar inventions registered.

(b) Innovation: Entrepreneurs innovate Innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth. Innovation, indeed, creates a resource. Successful entrepreneurs, whatever their individual motivation—be it money, power, curiosity, or the desire for fame and recognition—try to create value and to make a contribution. Still, successful entrepreneurs aim high. They are not content simply to improve on what already exists, or to modify it. They try to create new and different values and new and different satisfaction, to convert a "material" into a "resource", or to combine existing resources in a new and more productive configuration.

A small-scale enterprise today need not remain small forever. There are chances for the unit to grow from small to large. In Japan, the relevant sector is called the "small and medium scale industry" revealing the government philosophy and growth expectations. The entrepreneur should be futuristic and innovative.

The most important function of an entrepreneur, according to Joseph Schumpeter, is innovation. It is the core attribute of an entrepreneur. Innovative spirit is fed by information, knowledge, or even by intuition. Using information and skill, the idea of a novel project could be conceptualised. For an innovator, the market is never too saturated. Innovation need not merely be activities like replacing fruit juices or squashes with soft drink concentrates. It may be a new method for reducing the cost of production. It can be a totally new concept of commodity or an improvement in the design and specifications of a product. Or, simply exploring a market, which had not been thought of or tried out earlier. Innovation could be the result of positive reflexes or continuous and spontaneous thought processes.

A small business is always entrepreneur based. The scope for delegation of authority is limited. The entrepreneur has to show initiative and independence. They should act on their own rather than follow directions.

The issues that arise may vary from time to time. At a particular point of time, the government policy may favour one method or another, but with changes in environment, it may be necessary to reverse the decision in the interest of the enterprise. For instance, quoting prices in rupees may be favourable for an exporter when the exchange rate is favourable. But the moment there is erosion in the external value of the rupee, it is advisable to quote export prices in a stable foreign currency. The entrepreneur should be constantly in search of the changes in the environment to find answers to issues confronting him.

A good entrepreneur-manager should have a scientific and calculating bent of mind. Those who show a bias against modern tools for making management decisions will have to be satisfied with a low profile. Entrepreneur-managers must always encourage and nourish new ideas about every aspect of business.

And it is change that always provides the opportunity for the new and different. Systematic innovation, therefore, consists in purposeful and organised search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation. Systematic innovation means monitoring following seven sources for innovative opportunity.

- The unexpected—unexpected success, unexpected failure, unexpected outside event.
- The incongruity—between reality as it actually is and reality as it is assumed to be or as it "ought to be"
- Innovation based on process need
- Changes in industry structure or market structure that catches everyone unawares
- Demographics (population changes)
- Changes in perception, mood, and meaning
- New knowledge—scientific and non-scientific

(c) Dynamism: Innovation together with dynamism constitutes a potential combination for prosperity. Dynamism revises the targets of the enterprise upwards time and again. The enterprise may open up new vistas, better product mix, or charismatic product image stimulating steady growth. A dynamic entrepreneur is always pragmatic. Given the potentialities of the enterprises, he sets attainable goals, which are to be accomplished within specific timeframes. An entrepreneur tends to approach problems to solve them rather than running away from them. Being the decision maker, he cannot wish away problems. They have to be analysed systematically and solved in the interest of the enterprise. He must believe in, create, and practice "win-win" situations. This is a condition where everyone wins and no one looses. A good entrepreneur-manager trains his staff continuously besides undergoing the same process himself.

A sole entrepreneur should promote a second line of decision-making mechanism to prevent a void being created in his absence. There cannot be a vacuum in the decision-making system. A dynamic entrepreneur believes in action rather than depending on lengthy paper correspondence. An engineer at heart, he should update his knowledge of various functions. An efficient entrepreneur must be good at managing change. He must foresee and plan for change and administer it with minimum discomfort and dislocation. He should be highly visible as well as mobile. High visibility ensures good control and morals. He has many eyes and ears and an extremely clear head. He operates by razor-sharp ratios and keeps his fingers on these functional parameters. As a pragmatist, he must verify all proposals, propositions, products, and hypotheses. Profitable enterprises are known for their dynamic and aggressive leadership.

(d) Leadership: *Leadership is the basic quality of an entrepreneur.* This spirit keeps him paces forward in any field. Leadership qualities will enable a person to stand apart in whatever profession he might be in. The quality of his leadership is clear from personal relationships, mode of handling a problem, generating resources and taking others in to ones own stride. An enterprise endowed with the resource of leadership will always be prominent in the market.

(e) Teambuilding: An entrepreneur should have an ability to build a team. A team is a group of individuals with a common purpose, that is focused and aligned to achieve a specific task or set of outcomes.

A good team will be able to share knowledge, core competency, and goals. The teambuilding skill consists of the following steps.

Step 1 Wanting to feel better

Step 2 Identifying the problem and needs of the enterprise

Step 3 Creating a vision

Step 4 Setting goals for the group

Step 5 Reviewing progress

With mutual trust in place, team work breeds a healthy organisational climate needed for developing a perfect team. The collaboration and consensus brings synergetic effect in the enterprise. To illustrate this point, a story is narrated as follows:

A hare and a tortoise lived in Ahmedabad. They were good friends and, like all good friends, sometimes had a dig at each other. One day, in a light mood, the hare ridiculed the tortoise for his slow pace. The tortoise reacted by challenging the hare to a race from Paldi to Navarangpura. On the appointed day and time, the two met at the starting line and began the race. The hare dashed off like a flash. After crossing the midway mark, he felt that a short nap would do no harm. The short nap turned out to be a bit too long. The tortoise crossed the hare and reached the destination. The hare awoke from his slumber, oblivious of the time, and dashed off to Navarangpura. To his dismay he found the tortoise having a nap at the finish line. The story does not end here.

The hare went home and understood that complacency and overconfidence were the reasons for his defeat. He vowed not to repeat the mistake again. He invited the tortoise to another race. The tortoise agreed. They met on the appointed day and at the appointed hour. The race began. This time the hare dashed off to the finishing line without a break and won the race comfortably.

The moral of the story—Fast and steady also wins the race. The story does not end here.

The tortoise went home and thought hard. He was aware that the hare could not be defeated by speed. He pondered over his core competence and invited the hare to another race. This time the race was to be run from Paldi to the airport. The hare dashed off in a flash. Soon he arrived at the banks of the Sabarmati. He did not know how to swim. The tortoise arrived at the river bank, looked at the hare in sympathy and coolly entered into the water. He swam to the other side and reached the airport.

The moral of the story—Core competence, surely, wins the race. The story does not end here.

The friends decided—enough of racing against each other. They thought hard and found a way by which they could together travel from Paldi to airport in the minimum possible time. At the appointed time the following day, the tortoise sat on hare's back and dashed off from Paldi. On the banks of Sabarmati, the hare got on to the back of the tortoise. The tortoise swiftly crossed the river. On reaching the other bank the tortoise again climbed on to hare's back. The hare ran as fast as he could to the airport. Thus, they both made it to the airport in the fastest possible time.

The moral of the story—Innovation and team work, successfully win the race…any race.

(f) Achievement motivation: Entrepreneurs have a high need for achievement and are guided by their inner self, motivating their behaviour towards accomplishment.

Most entrepreneurs are attracted to this innovative career for one good reason that it is challenging and demands a high degree of intelligence, and involvement. Entrepreneurs can be classified into three categories. Some are only dreamers and though they indulge in nice dreams, they are not capable of translating their dreams into action. The growth of such entrepreneurs is soon stunted. Some entrepreneurs belong to the category of doubters. They always have a negative attitude, never expand their activities, never take any risk, and never go out of their way to achieve anything. They doubt their own capacity to do anything new. They are never innovative and they follow the line of least resistance. The third category of entrepreneurs are the doers. They always accept any challenge and take a calculated risk to do something worthwhile. It is necessary to contact such highly successful entrepreneurs and ask them what motivated them to become successful in their life.

In India, we have a number of such entrepreneurs who started their business activity from scratch. They may be considered as entrepreneurs of the first generation. These entrepreneurs had to go through a great ordeal to achieve success. Jamshetji Nowroji was a first generation entrepreneur in the days when the British policy was not to encourage Indian enterprises beyond a point. Jamnalal Bajaj was also considered as a great pioneer and first generation entrepreneur in the Bajaj family. Charat Ram and Bharat Ram, who started their careers at the bottom of the rung, buffing coal into boilers and washing floors, also became great go-getters. Business families of Tata, Birla, Mafatlal, Singhania, Kirloskar, Bajaj, Firodia and a host of others were really pathfinders and pioneers in their respective fields.

These entrepreneurs believed in "Slow and steady wins the race". They realised that nobody achieves success overnight. They were always careful and cautious in driving themselves ahead in their career. They built their ideas day by day and built their business houses brick by brick. They thought with a proper perspective and were always realistic in making calculations. They were also aware that they should not become obsolete in their knowledge and information. They kept pace with modern requirements and the changing trends in the areas of their specialisation and activity. They believed in continued education and, therefore, were prepared to learn anything and everything directly or indirectly related to their business. They had tremendous imaginative power and robust common sense. They were professional in their thinking and approach. They were never content after achieving initial success. They did not fall prey to complacency, hypocrisy, sycophancy, idiosyncrasy, and obsolescence. They obtained interpersonal support. They were taskmasters and did not neglect even the smallest tasks assigned by them to their subordinates. They also took a considerable interest in their personal life and were always cheerful. They always liked to go around and meet different sections of the community and learn a lot by the exposure that they got from such interaction. They are patient listeners and are prepared to understand what others have to say. They had initiative but they were prepared to give the credit where it was due.

(g) Problem solving: It is important that an entrepreneur should be able to solve problems and not avoid them. A formal problem-solving model helps entrepreneurs solve problems on a logical manner. The model consists of six steps.

(a) Define the problem
(b) Gather information
(c) Identify various solutions
(d) Evaluate alternatives and select the best option
(e) Take action
(f) Evaluate the action taken

Brainstorming is a creative group problem-solving technique that involves generating a large number of fresh ideas. In a brainstorming session, several people gather in a room to discuss a particular problem. The meeting is informal, and everyone is encouraged to volunteer possible solutions. A designated person writes down all of the ideas suggested. The person who called the meeting usually serves as the group moderator. The moderator maintains order during the brainstorming session, making sure that everyone has a chance to be heard. The moderator also makes sure the group does not stray too far from the problem being examined.

Ideas are not analysed or criticised at a brainstorming session. The purpose is to share creative ideas, regardless of how practical or impractical they may be. Following the brainstorming session, all the ideas are carefully evaluated, and a list of ideas that are practical to implement is prepared. Entrepreneurs should facilitate brain-storming among their employees when a new opportunity presents itself or a problem seems to demand new ideas.

(h) Goal orientation: Goal setting is the achievement of targets and objectives for successful performance of an entrepreneur, both long run and short run. It helps to measure how well individuals and groups are meeting the performance standards.

Human behaviour is goal directed. Therefore, goal setting is a necessary part of all activities. Everyone needs to feel that they have a worthwhile goal that can be reached with the resources and leadership available. Without goals, different members may go in different directions which may give rise to difficulties and these difficulties would continue as long as there is no common understanding of the goals involved.

The goal-setting process requires three steps, which are as follows.

1. Definition of goal
2. Specific goals
3. Feedback about goal achieved

The definition of a goal requires that a leader explain the purpose and necessity of the specified goals to his team members. Whatever the situation, people need goals that are meaningful to them in order to be highly motivated and involved. Goals must be as specific as possible so that employees can feel a sense of achievement when a goal is attained. Goals must lead to tangible results.

Aspects of goal setting

(a) Clarity of goals Clear and simple objectives will bring expected results. Misinterpretation and confusion will not allow people to achieve the set goals. If the goals are set in terms of action, there will be clarity.

(b) Reformulation of goals: If any discrepancy occurs in initial formulation the outcome would be subject to change. Goal setting should, therefore, be dynamic. Goals should be redefined according to the requirements. The prospect of achieving a goal can be assessed through reformulation. A change in the situations may require a change in strategy and perhaps even the goals. Therefore, constant re-examination of goals is necessary.

(c) Restating goals: Defining or redefining goals results in analytical thinking, the outcome of which could be restating the goal, thereby making it more approachable and practical. The new goal might serve the organisation/individual purpose far better. The emerging strategy will also thus be clearer, making the goal more relevant and achievable.

(d) Plan of action: A detailed strategy needs to be chalked out in advance after a through discussion and debate to achieve the set goals. Thereafter, responsibilities and duties must be assigned and resources arranged.

(e) Defining standards of performance and measurement criteria: This should effectively be able to rate success and failure and must be reliable enough to provide necessary feedback.

(f) Recognising risks and obstacles: A fair amount of thought must be given to possible stumbling blocks on the route to attaining goals. In the process associated losses must also be calculated.

(g) Goal reaffirmation: It is necessary to periodically review the goal since (i) with the passage of time the set goal might become redundant; (ii) the organisation may have sidetracked the original goal; (iii) more time than necessary might be making its purpose ineffective.

(h) Goal attainment: The questions that need to be asked here are: Have the goals been attained? Is there a need to modify the goals? Then the expected results must be examined to see if they meet the goals set.

Types of Goals

(a) *Target oriented*: At times established targets that have been set in advance bind an individual/organisation. The ultimate objective is to reach the targets despite the constraints and a specified time frame. The process through which one should achieve the goal is not as important as the goal. One should keep in mind that the process, though not sidelined, is just a means. Moreover, results are often gauged in quantitative, rather than qualitative, terms.

(b) *Achievement oriented*: The value and effectiveness of goals are weighed in the true sense, in real terms. The qualitative aspects and achievement orientation of an entrepreneur should be ranked higher than any other requisites such as sales turnover or employee welfare. Goal effectiveness is not evaluated merely in terms of numbers. Performance is given a very high weightage.

(c) *Specific (primary)*: Specific goals are very important to any individual/organisation. Specific goals are the pivot around which work process revolves. No constructive activity can be accomplished without knowing specific objectives. Loose, open-ended goals will only lead to indeterminate results. Every individual/organisation must have a primary objective to adhere to, and this operational goal must take precedence over other goals.

(d) *Overall*: Overall goals are broad based. An organisation may have "strengthening" (carving a niche for itself) as its overall objective. Each of its departments, working together, contributes to the overall goal.

(e) *Secondary*: Secondary goals take a back seat to specific goals. But they must not be overlooked in the rush to meet the primary goal. In the long run, secondary goals become very important since the degree of effectiveness of the primary goals rest on their fulfillment.

(f) *Long range/short range*: An individual/organisation works as much for the future as for the present. Each goal, however, has a time dimension. Short-range objectives have sharper deadlines and are much more planned as their result can be seen in the near future. Long-range goals, on the other hand, require perspective planning and foresight. For example, the long-range objective of a small-scale unit might be to ultimately grow into a medium-scale unit.

(g) *Personal/social*: Personal and social goals can either be complementary or substitutes or both. For example, a teacher might set a goal of being the best teacher in the group (personal goal). Besides, he might also want his students to be the best (social goal). For best results, it is necessary that both personal and social goals be in harmony. Conflict will only act as an impediment in achieving the objectives.

A performance-sensitive organisation must always strive to set goals which should be a balance of the various categories mentioned above. Once the appropriate mix is identified, the task of goal stating as well as setting becomes easier.

(i) Risk taking and decision-making ability: Entrepreneurs are persons who take decisions under conditions of uncertainty, and therefore are willing to bear risk, but never gamble with results. This is evidenced by market studies, exploring alternative lines of production or a new product mix, or a new combination of inputs, and so on. They set goals that require high level of performance.

Risk bearing and decisions making calls for absolute clarity in thinking and coordinated actions. Though decision-making can be taught in classrooms and perfected through experience, individual ability always stands supreme. Every decision pertaining to an enterprise involves risk. As a matter of fact, economic decisions become critical in an atmosphere of uncertainty. *An uncertainty is faced not just by a single enterprise but by all, like the market.*

Decision-making in an environment of uncertainty requires anticipation of risk. Profit is said to be the reward for anticipating and taking such a risk. The stakes involved in the event of a wrong decision are enormous. The risk, however, needs to be always well calculated, and access to liquid resources may be desirable to overcome uncertainties and unforeseen contingencies. A conservative enterprise, which is unwilling to take even risk that can be covered to gain, has lesser than an enterprise which takes rational risk. How far risk taking is justified depends on the calibre of the entrepreneur. A person who has the ability of averting risk needs to be always objective. Persons who can take risks and make quick decisions tend to prosper. Therefore, entrepreneurs develop the art of decision making under conditions of uncertainty as a matter of survival.

A good entrepreneur should avoid excessively high as well as low risk situations. Risk bearing is an indication of an extreme sensitivity to cost consciousness and a passion for profit. The focus should always be on the market. The entrepreneur should believe in competition. The progress of an entrepreneur depends increasingly on effective knowledge and its continuous updating and proper utilisation.

1. Drucker, Peter F. (1985) *Innovation and Entrepreneurship*". New York: Harper and Row. 2. McClelland, D.C. (1961). *The Achieving Society*. New York: Free Press.

It is generally difficult to assess risk factors in the small-scale sector. Most business failures appear to occur within five years of founding. Long history of gradually shrinking sales and profits need careful consideration. Depending heavily upon few customers or on the skills or knowledge of a few is also quite risky. Highly competitive markets and high direct cost of labour and materials in relation to sales often indicate high-risk situations. It is useful to consider the nature of relationship between risk and return. Low-risk investment provides a return not exceeding 10 per cent, moderate risk of 20 per cent and a high risk up to 100 per cent. It is left to individual entrepreneurs to choose the degree of risk they would be able to take.

(j) Commitment: One of the subtle qualities of an entrepreneur is his willpower. Strong determination with sound thinking fortifies will power. It is determination that provides the entrepreneur energy to work for 15–18 hours a day, 7 days a week and 52 weeks in a year till the unit reaches a natural stage of take off.

DISCUSSION FORUM

- What are the characteristics of a successful entrepreneur?
- Sketch a model of a creative process.

CLASSIFICATION OF ENTREPRENEURS

(a) Based on Functional Characteristics

1. **Innovative entrepreneur:** Such entrepreneurs introduce new goods or new methods of production or discover new markets or reorganise their enterprises. Entrepreneurs in this group are characterised by an aggressive assemblage of information for trying out a novel combination of factors. Such entrepreneurs can do well only when a certain level of development has already been achieved; they look forward to improving upon the past.
2. **Imitative or adoptive entrepreneur:** Such entrepreneurs do not innovate themselves, but imitate techniques and technology innovated by others. Entrepreneurs in this group are characterised by their readiness to adopt successful innovations by successful entrepreneurs. Such entrepreneurs are particularly suitable for underdeveloped economies as adoption saves costs of trial and error.
3. **Fabian entrepreneur:** Such entrepreneurs display great caution and skepticism in experimenting with any change in their enterprise. They change only when there is an imminent threat to the very existence of their enterprise.
4. **Drone entrepreneur:** Such entrepreneurs are characterised by a die-hard conservatism and may even be prepared to suffer the loss of business.

Box 2.2 Entrepreneurial Core Competencies

Sl. No	Core competencies	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced by events, and acts to extend the business to new areas, products, or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilises necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information on client's or supplier's needs. Personally undertakes market research and makes use of personal contacts or information network to obtain useful information.
5.	Concern for quality work	States desire to produce or sell a better quality product or service. His performance compares favourably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expends extraordinary effort to complete a job. Accepts full responsibility in completing a job contract on schedule. Pitches in with workers, or works in their place, to get job done. Shows utmost concern to satisfy customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better, and economically.
8.	Planning	Various inter-related jobs are synchronised according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to them in spite of initial setbacks.
11.	Expertise	Possesses technical expertise in area of business, finance, marketing, and so on.
12.	Self-critical	Aware of personal limitations but tries to improve upon them by learning from his past mistakes, or experiences of others and is never complacent with success.

13.	Persuasion	Persuades customers and financiers to patronise his business.
14.	Use of influence strategies	Develops business contracts. Retains influential people as agents. Restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands, or disciplines for failing to perform.
16.	Monitoring	Develops a reporting system to ensure that work is completed and that it meets quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers, and customers even if it means a loss of business.
18.	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19.	Impersonal relationship	Places long-term goodwill above short-term gain in a business relationship.
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital base of the firm.
21.	Building product image	Concerned about the image of his product among customers. Does everything possible to establish a niche for his product in the market.

(b) Based on the Developmental Angle

1. **Prime mover:** This entrepreneur sets in motion a powerful sequence of development, expansion, and diversification of business.
2. **Manager:** Such an entrepreneur does not initiate expansion and is content just staying in business.
3. **Minor innovator:** This entrepreneur contributes to economic progress by finding better use for existing resources.
4. **Satellite:** This entrepreneur assumes a supplier's role and slowly moves towards a productive enterprise.
5. **Local trading:** Such an enterpreneur limits his enterprise to the local market.

(c) Based on Types of Entrepreneurial Business

1. **Manufacturing:** An entrepreneur who runs such a business actually produces the products that can be sold using resources and supplies. For example, apparel and other textile products, chemical and related products, electronics and other electrical equipment, fabricated metal products, industrial machinery and equipment, printing and publishing, rubber and miscellaneous plastic products, stone, clay etc.
2. **Wholesaling:** An entrepreneur with such a business sells products to the middle man.

SNAPSHOT

Classification of Entrepreneurs

- Based on the functional characteristics: Innovative, Imitative/Adoptive, Fabian, Drone.
- Based on the Developmental Angle: Prime mover, Manager, Minor innovator, Satellite, Local trading.
- Based on the types of Business: Manufacturing, Wholesaling, Retailing, Service.
- Based on the 9 Personality types: The Improver, The Advisor, The Superstar, The Artist, The Visionary, The Analyst, The Fireball, The Hero, The Healer.
- Based on the Schools of Thought on Entrepreneurship.

3. **Retailing:** An entrepreneur with such a business sells products directly to the people who use or consume them.
4. **Service:** An entrepreneur in this business sells services rather than products.

(d) Based on the Nine Personality Types of Entrepreneurs

Your business personality type is the traits and characteristics of your personality that blend with the needs of the business. If you better understand your business personality, then you can give your company the best part of you. Find others to help your business in areas you may not be prepared to fulfill. There are 9 key types of personality and understanding. Each will help you enjoy your business more and provide your company with what it needs to grow. Begin identifying your dominant personality theme and understand how you operate in your business.

1. **The Improver:** If you operate your business predominately in the improver mode, you are focused on using your company as a means to improve the world. Your overarching motto is: morally correct companies will be rewarded working on a noble cause. Improvers have an unwavering ability to run their business with high integrity and ethics.

Personality Alert: Be aware of your tendency to be a perfectionist and over-critical of employees and customers.

Entrepreneur example: Anita Roddick, Founder of The Body Shop.

2. **The Advisor:** This business personality type will provide an extremely high level of assistance and advice to customers. The advisor's motto is: the customer is right and we must do everything to please them. Companies built by advisors become customer focused.

Personality Alert: Advisors can become totally focused on the needs of their business and customers that they may ignore their own needs and ultimately burn out.

Entrepreneur example: John W. Nordstrom, Founder Nordstrom.

3. **The Superstar:** Here the business is centered on the charisma and high energy of the Superstar CEO. This personality often will cause you to build your business around your own personal brand.

Personality Alert: Superstarts Can be too competitive and workaholics.

Entrepreneur example: Donald Trump, CEO of Trump Hotels & Casino Resorts.

4. **The Artist:** This business personality is the reserved but a highly creative type. Often found in businesses demanding creativity such as web design and

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ad agencies. As an artist type you'll tend to build your business around the unique talents and creativities that you have.

Personality Alert: You may be overly sensitive to your customer's responses even if the feedback is constructive. Let go the negative self-image.

Entrepreneur example: Scott Adams, Creator of Dilbert.

5. **The Visionary:** A business built by a Visionary will often be based on the future vision and thoughts of the founder. You will have a high degree of curiosity to understand the world around you and will set-up plan to avoid the landmines.

Personality Alert: Visionaries can be too focused on the dream with little focus on reality. Action must precede vision.

Entrepreneurial example: Bill Gates, Founder of Microsoft Inc.

6. **The Analyst:** If you run a business as an Analyst, your company focus is on fixing problems in a systematic way. Often the basis for science, engineering or computer firms, Analyst companies excel at problem solving.

Personality Alert: Be aware of analysis paralysis. Work on trusting others.

Entrepreneurial example: Intel Founder, Gordon Moore.

7. **The Fireball:** A business owned and operated by a Fireball is full of life, energy and optimism. Your company is life energizing and makes customers feel the company has a get it done attitude in a fun playful manner.

Personality Alert: You may over commit your teams and act impulsively. Balance your impulsiveness with business planning.

Entrepreneurial example: Malcolm Forbes, Publisher of Forbes Magazine.

8. **The Hero:** You have an incredible will and ability to lead the world and your business through any challenge. You are the essence of entrepreneurship and can assemble great companies.

Personality Alert: Over promising and using forceful tactics to get your way will not work long term. To be successful, trust your leadership skills to help others find their way.

Entrepreneurial example: Jack Welch, CEO of GE.

9. **The Healer:** If you are a Healer, you provide nurturing and harmony to your business. You have an uncanny ability to survive and persist with an inner calm.

Personality Alert: Because of your caring, healing attitude toward your business, you may avoid outside realities and use wishful thinking. Use scenario planning to prepare for turmoil.

Entrepreneurial example: Ben Cohen, Co-Founder Of Ben & Jerry's Ice Cream.

Each business personality type can succeed in the business environment if you stay true to your character. Knowing firmly what your strong traits are can act as a compass for your small business. If you are building a team, this insight is invaluable.

For the solo business owners, understand that you may need outside help to balance your business personality.

(e) Based on schools of Thought on Entrepreneurship

These are six schools of thought on entrepreneurship each with its own underlying set of beliefs. Each of these schools can be categorised according to its interest in studying personal characteristics, opportunities, management, or the need for adapting an existing venture.

Box 2.3 Schools of Thought on Entrepreneurship

Entrepreneurial model	*Central focus or purpose*	*Behaviours and skills*	*Situation*
"Great Person" school	The entrepreneur has an intuitive ability – a sixth sense–and traits and instincts he is born with.	Intuition, vigour, energy, persistence, and self-esteem	Start up
Psychological Characteristics school	Entrepreneurs have unique values, attitudes, and needs, which drive them.	Personal values, risk taking, need for achievement, and others	Start up
Classical school	The central characteristic of entrepreneurial behaviour is innovation.	Innovation, creativity, and discovery	Start up and early growth
Management school	Entrepreneurs are organisers of an economic venture; they are people who organise, own, manage, and assume the risk.	Production planning, people organisation, capitalisation and budgeting	Early growth and maturity
Leadership school	Entrepreneurs are leaders of people; they have the ability to adapt their style to the needs of people.	Motivating, directing, and leading	Early growth and maturity
Intrapreneurship school	In corporations intrapreneurship is the development of independent units to create, market and expand services.	Alertness to opportunities, maximising decisions	Maturity and change

Assessing personal qualities

1. The Great Person school of entrepreneurship
2. The Psychological Characteristics school of entrepreneurship

Recognising opportunities

3. The Classical school of entrepreneurship

Acting and managing

4. The Management school of entrepreneurship
5. The Leadership school of entrepreneurship

Reassessing and adopting

6. The Intrapreneurship school of entrepreneurship

Different entrepreneurial situations of start-up, growth, and maturity of a venture may require different behaviours or skills. The behaviour and skills of different schools of thought are presented in Box 2.3 and are described below.

1. **The Great Person school of entrepreneurship:** This school believes that an entrepreneur is born with an intuitive ability, sixth sense, traits, and instincts. The successful entrepreneur is described as having a strong drive for independence and success, with high levels of vigour, persistence, and self-esteem. This "great person" has an exceptional belief in himself and his abilities. Attention is paid to such traits as energy, perseverance, vision, and single mindedness, or abilities such as being inspirational or motivational. Other traits frequently mentioned include physical attractiveness, popularity and sociability, intelligence, knowledge, judgement and fluency of speech as also tact, diplomacy, and decisiveness.
2. **The Psychological Characteristics school of entrepreneurship:** This school of thought focuses on personality factors and believes that entrepreneurs have unique values and attitudes towards work and life. These, along with certain dominant needs, propel the individual to behave in certain ways. Entrepreneurs can be differentiated from non-entrepreneurs by personality characteristics. Three personality characteristics have received considerable attention in research: (1) personal values such as honesty, duty, responsibility, and ethical behaviour; (2) risk-taking propensity; and (3) the need for achievement.

   The school generally believes that entrepreneurs cannot be developed or trained in classroom situations. Much of an entrepreneur's ability relates to a personality or style of behaviour, which develops over time, primarily through relationships with parents and teachers early in life. Values and ideals, fostered in one's family, school, religion, community, and even culture, stay with the individual and guide him for a lifetime. These values are learned and internalised, and reflect the process of socialisation into a culture. Personal values are basic to the way an individual behaves and will be expressed regardless of the situation. Since these values are learned early in life and are well established prior to adulthood, entrepreneurial characteristics are hard to inculcate in universities and schools. Industriousness need for achievement, locus of control, risk taking, and tolerance of ambiguity, have received a great deal of attention in this school.
3. **The Classical school of entrepreneurship:** Innovation, creativity, or discovery are the key factors underlying the classical body of thought and research on entrepreneurship. In this view entrepreneurship refers to the

process of creating an opportunity or the opportunity-seeking style of management that sparks innovation. The critical aspect of entrepreneurship is in the process of doing rather than owning.

4. **The Management school of entrepreneurship:** As in most fields of organisational study, entrepreneurship draws heavily from management theory. The management school suggests that an entrepreneur is "a person who organises or manages a business undertaking, assuming the risk for the sake of profit". This school deals with the technical aspects of management and seems to be based on the belief that entrepreneurs can be developed or trained in the classroom. Since many entrepreneurial ventures fail each year, a significant proportion of these failures might be traced to poor management and decision making, as well as to financing and marketing weaknesses. According to this school, entrepreneurship is a series of learned activities which focus on the central functions of managing a firm.

   The management school is directed at improving a person's management capability through developing his rational, analytic, and cause-and-effect orientation. This school believes that entrepreneurs can be developed or trained in the technical functions of management. Since, according to this school, entrepreneurship can be taught, its central aim is to identify the specific functions involved and provide training to existing and hopeful entrepreneurs. Courses such as new venture marketing and new venture finance provide the training in these management functions that can reduce the number of business failures.

5. **The Leadership school of entrepreneurship:** An entrepreneur is often a leader who relies on people to accomplish his purposes and objectives. The Leadership school of entrepreneurship is a non-technical side of the management school, which suggests that entrepreneurs need to be skilled in appealing to others to join the cause. A successful entrepreneur must also be a people manager or an effective leader/mentor who plays a major role in motivating, directing, and leading people. Thus the entrepreneur must be a leader, able to define a vision of what is possible, and attract people to rally around that vision and transform it into reality.

   There are two "streams" of writings on entrepreneurial leadership. The first stream has been grouped within the "great person" school, and describes the writings, which suggest that certain traits, and personal characteristics are important for success. The "great person" school follows early leadership research, which suggests that traits such as adaptability to situations, cooperation, energy, and willingness to take responsibility are important aspects of success.

   The most pervasive stream of the Leadership school is concerned with how a leader gets tasks accomplished and responds to the needs of people. Two dimensions are important for the management of an enterprise—concern for getting the task accomplished and concern for the people doing the work. These two dimensions grow out of the previous research, which tried to describe the essential aspects of leadership.

Fiedler suggested that leaders should adjust their leadership style based on the situations facing them. Entrepreneurial leadership involves more than personal traits or style in relating to others. The role can be a focal point for change and inculcating values, and it can involve the skills of setting clear goals and creating opportunities. These include the skills of empowering people, preserving organisational intimacy, and developing a human resource system. This school describes a leader as a "social architect", or as one who is "primarily an expert in the promotion and protection of values".

This school suggests that leaders must be effective in developing and mentoring people. The leader is an experienced mentor by whom the protégé is taught the "critical trade secrets". Given the importance of the mentoring process, the entrepreneur is more than a manager—he is also a leader of people.

6. **The Intrapreneurship school of entrepreneurship:** The Intrapreneurship school evolved in response to the lack of innovativeness within organisations. Intrapreneurs, to the limited extent that they possess discretionary freedom of action, are able to act as entrepreneurs and implement their ideas without themselves becoming owners. Alertness to opportunities is one dimension of intrapreneurial activity. Such strategic behaviour provides the means for extending the organisation's activities and discovering opportunities. This allows existing organisations to develop and diversify their activities in other areas. Intrapreneurship involves the development of independent units designed to create a market, and expand innovative services, technologies, or methods within the organisation. Schumpeter noted that successful intrapreneurial activity often leads to organisation building and to intrapreneurs becoming managers.

The Intrapreneurial school generally assumes that encouraging people to work as entrepreneurs in semi-autonomous units can achieve innovation in existing organisations. However, there are indications that large corporations have been unsuccessful in creating intrapreneurs or an entrepreneurial climate. Many managers involved in an intrapreneurial venture often leave the company, sometimes in frustration, to start their own entrepreneurial venture. Their departure may indicate that entrepreneurial forces might be at odds with normal managerial activity, or that conventional organisations have not been able to use the intrapreneurship model to their best advantage. The success of the intrapreneurial model seems to depend on the abilities of operational participants to exploit entrepreneurial opportunities. It also depends on whether or not managers in the overall corporate structure see the need to exploit these opportunities.

The Intrapreneurial school does not just provide a model for encouraging bureaucratic creativity. As a school, it is not merely an attempt to give freedom to a group of people so that they can be entrepreneurs. It also requires individuals to work with others in teams, much more than entrepreneurs do. When individuals work together in groups, they are better able to recognise the importance of political needs and understand how to implement their ideas. In this sense, intrapreneurship is a "team" model whereby individuals are asked to work together to solve problems and create opportunities. Building a balanced "team" requires the ability to use people effectively in groups, where tasks require different inputs from team members. For some tasks, intrapreneurial activities may require the input of professionals, while in others the support and assistance of operational workers may be needed. Intrapreneurial activities can focus on strategic redirection, organisational duplication, product development, and operational efficiency.

DISCUSSION FORUM

- Discuss in small groups various types of classifications of entrepreneurs with examples.

MYTHS OF ENTREPRENEURSHIP

Down the years many myths have been created about entrepreneurship. Some of the major myths are discussed below.

(a) Entrepreneurs are born, not made

According to this long-prevalent myth, the characteristics of entrepreneurs cannot be taught or learned, they are innate traits with which a person must be born. Today, however, the recognition of entrepreneurship as a discipline is helping to dispel this myth. Like all disciplines, entrepreneurship has models, processes and case studies that allow the topic to be studied and the traits acquired by training and development.

(b) Entrepreneurs are academic and social misfits

The belief that entrepreneurs are academically and socially ineffective is born of some business owners having started successful enterprises after dropping out of school or quitting a job. In many cases such an event has been blown out of proportion in an attempt to profile the typical entrepreneur. Historically, in fact, educational and social organisations did not recognise the entrepreneur. They abandoned him or her as a misfit in a world of corporate giants. Business education, for example, was aimed primarily at the study of corporate activity. Today the entrepreneur is considered a hero socially, economically and academically. The entrepreneur is now viewed as a professional.

SNAPSHOT

Myths of Entrepreneurship

- Entrepreneurs are born not made
- Entrepreneurs are academic and social misfits
- Entrepreneurs fit an ideal profile.
- All you need is money to be an entrepreneur
- All you need is luck to be an entrepreneur
- A great idea is the only ingredient in a recipe for business
- My best friend will be a great business partner
- Having no boss is great fun
- I can make lots of money
- I will definitely become successful
- Life will be much simpler if I work for myself

(c) Entrepreneurs fit an ideal profile

Researchers have presented checklists of characteristics of a successful entrepreneur. These lists were neither validated nor complete; they were based on case studies and on research findings among achievement-oriented people. Today we realise that a standard entrepreneurial profile is hard to compile. The environment, the venture itself, and the entrepreneur have interactive effects, which result in many different types of profiles. Contemporary studies being conducted at universities across the world will, in the future, provide more accurate insights into the various profiles of successful entrepreneurs.

(d) All you need is money to be an entrepreneur

It is true that a venture needs capital to survive; it is also true that a large number of business failures occur because of lack of adequate financing. Yet having money is not the only bulwark against failure. Failure due to a lack of proper financing is often an indicator of other problems: managerial incompetence, lack of financial understanding, poor investments, poor planning, and so on.

(e) All you need is luck to be an entrepreneur

Being in "the right place at the right time" is always an advantage, but "luck happens when preparation meets opportunity" is an equally appropriate adage. Prepared entrepreneurs who seize an opportunity when it arises often appear to be "lucky". They are, in fact, simply better prepared to deal with situations and turn them into successes. What appears to be luck is really a combination of preparation, determination, desire, knowledge, and innovativeness.

(f) A great idea is the only ingredient in a recipe for success

A great idea may stay just that if it is not backed by adequate finance, demand for the product and, most importantly, good management. Venture capitalists say bad management is the main cause of failures among small businesses. "The quality of management will determine the success/failure of the venture,"

(g) My best friend will be a great business partner

Teaming up with your best friend just because you share an idea and a drink every weekend may not be a good idea. Sure, you may agree on most issues but misunderstandings can erupt over insignificant aspects like who should be in the office first, who's in charge of supervising the office staff and so on.

(h) Having no boss is great fun

If you thought your boss was way too demanding, watch out for your vendors, bankers, investors, suppliers and customers. The owner of a restaurant delivery service we met complains that a client refused to pay for the order because the restaurant did not put in pickles. Since customers can make or break you, their wish often ends up being your command.

1. Sexton Donald L., Raymond W. Smilor (eds), 1986. *The Art and Science of Entrepreneurship*. Cambridge: Ballinger. 2. "Do you have an Idea for the Money". Business World, May 17, 1999.

i. I can make lots of money

When Sumit Roy, a training consultant, quit his job at Lintas and set up his own outfit called Univbrands in 1992, he had to make quite a few sacrifices. "For the first three months I gave up my car and traveled by bus," he says. For most people it is years, not months, before the money starts coming in. Till that happens, you'll have to miss the security of your monthly pay cheque. Are you ready for that?

(j) I'll definitely become successful

Put it down to plain optimism, egoism or a survival strategy, but most business owners or even those starting off on their own refuse to accept the possibility of failure. Don't believe those clichés about winners never quitting and quitters never winning: the number of people who fail are legion, and it can happen to you as well.

(k) Life will be much simpler if I work for myself

Don't believe it for one moment. Working for yourself is definitely more strenuous than working for others, at least when starting off. Take for instance Dinesh Gupta. He set up Green Investors' Grievances Services two years ago to take care of individuals' stock-related problems, and has a punishing schedule even now. His typical day starts at 5 a.m. and ends at 7 p.m.

DISCUSSION FORUM

- Comment on the statement, "It is not all that rosy to start your own business, so before you take the plunge with an overdose of optimism, be sure you do not fall for any of these myths".
- Discuss popular myths of entrepreneurship and why they are more fantasy than fact.

ENTREPRENEURIAL DEVELOPMENT MODELS

The models suggested for the development of entrepreneurship fall in the following categories.

(a) Psychological models
(b) Sociological models
(c) Integrated models

(a) Psychological Models

McClelland (1961) has given a significant lead in identification of determinants of entrepreneurship. In his model, he ascribes more importance to achievement motives, which earlier related to child-rearing practices. But in his recent book with D.G. Winter, he has altered his earlier proposition on the importance of child rearing as the

SNAPSHOT

- **Models suggested for the development of entrepreneurship**
  a. Psychological models. b. Sociological models. c. Integrated models.
- **Five stages for promoting small entrepreneurship are:**
  a. Stimulation b. Identification. c. Development. d. Promotion e. Follow up.
- **Entrepreneurial development cycle consists of the following activities:**
  a. Stimulatory. b. Support. c. Sustaining

intrinsic determinant of the achievement motive. Now, change in motivation is seen primarily as a result of the ideological arousal of the latent need for achievement among adults. After identifying achievement orientation as the key variable in the development of entrepreneurship, McClelland suggests motivation-training programme as the policy measure, which will make entrepreneurs really willing and eager to exploit the new opportunities provided.

Everett Hagen's theory of social change lays emphasis on "creative personality" as a casual link in entrepreneurial behaviour and "status withdrawal" as the determinant of the creative personality. Hagen elaborately explains the causal sequence of entrepreneurial behaviour. But his model of entrepreneurship fails to give any policy variable for the development of entrepreneurship. Status withdrawal would occur in the natural evolutionary process of the society and not by any deliberate attempt.

John Kunkel (1965) considered entrepreneurial supply by suggesting a behaviourist model. His model suggests that entrepreneurial behaviour is a function of the surrounding social structure, both past and present, and can really be influenced by manipulating economic and social incentives. Thus, Kunkel's model is based upon experimental psychology, which identifies sociological variables as the determinants of entrepreneurial supply.

(b) Sociological Models

Frank W. Young's theory of entrepreneurship is a theory of change based upon society's incorporation of relative sub-groups. The relativeness of a sub-group which has a low status in a larger society will lead to entrepreneurial behaviour if the group has better institutional resources than others in the society at the same level. Young's model of entrepreneurship suggests the creation of supporting institutions in society as the determinant of entrepreneurship.

(c) Integrated Models

T. V. Rao (1975) in "entrepreneurial disposition" has included the following factors.

(i) Need for motive is the dynamic which, for the prospective entrepreneur, has the greatest possibility of achieving the goals if one performs those activities.

(ii) Long–term involvement is the goal either at thinking level or at activity level in entrepreneurial activity that is viewed as a target to be fulfilled.

(iii) Personal, social and material resources which, he thinks, are related to entry and success in the area of entrepreneurial activity.

(iv) Socio-political system to be perceived as suitable for establishment and development of his enterprise.

All these factors are additive in nature and their optimal presence lead to the entry point of entrepreneurship, which leads to acquisition of material resources and beginning of business.

B. S. Venkata Rao (1975) described the following five stages for promoting small entrepreneurship.

(1) Stimulation
(2) Identification
(3) Development
(4) Promotion
(5) Follow up

(1) **Stimulation:** This stage includes the creation of an industrial atmosphere, policy statement emphasizing the role of small industry, wide publicity of industrial development programmes, and formation of special schemes and creation of support institutions. This stage is necessary to stimulate interest of the backward regions in industrial activity and to create awareness.

(2) **Identification:** This stage is necessary to identify prospective entrepreneurs. The prospective entrepreneurial force can be identified in rural artisans, factory workers, persons with formal training in engineering and technology, and graduates in business administration and management.

(3) **Development:** This stage would include organisation of motivation and managerial training programmes along with advice on technology, formulation of bankable project, location, and so on.

(4) **Promotion:** This stage would include government policy initiatives for promoting small entrepreneurship.

(5) **Follow up:** This stage includes reviewing the policies and programmes of the government and seeking follow up with a view to making them more effective.

Entrepreneurship is a behaviour rather than a personality trait. It is risky in the sense that only a few of them know what they are doing. The whole process of developing an entrepreneur, making him start a venture, supporting and sustaining him involves a cyclic process. M. P. Akhori suggested the entrepreneurial development cycle (Figure 2.2) consisting of the following components for the promotion and development of entrepreneurship.

1. Stimulatory activities: These activities ensure the emergence of entrepreneurs in the society. They prepare the background for the entrepreneurship to sprout and for people to start looking for entrepreneurial pursuits. They generate initial motivation and offer opportunity to acquire skill. These can be achieved by the following activities.

- Entrepreneurial education
- Planned publicity for entrepreneurial opport-unities
- Identification of potential entrepreneurs through scientific methods
- Motivational training to new entrepreneurs
- Help and guidance in selecting products and preparing project reports

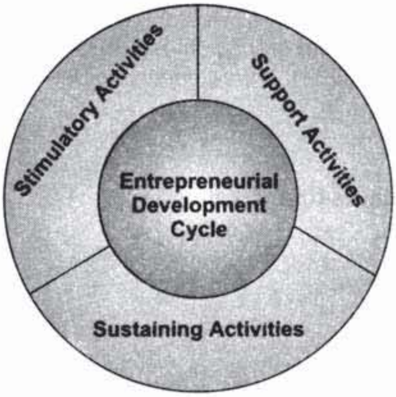

Figure 2.2 ■ Entrepreneurial Development Cycle

- Making available techno-economic information and product profiles
- Evolving locally suitable new products and processes
- Availability of local agencies with trained personnel for entrepreneurial counselling and promotions
- Creating entrepreneurial forums
- Recognition of entrepreneurs

2. Support activities: These activities help a person to develop into an entrepreneur. They nurture and help entrepreneurship to grow. This can be done by providing the necessary infrastructure in the form of computers, Internet connectivity, offering consultancy and training, and providing all required information as to how a person should groom himself as an entrepreneur. Financial assistance for projects and seminars could also promote entrepreneurship. These activities can be promoted in the incubation centre to groom a person to become an entrepreneur. The various support activities are given below.

- Registration of unit
- Arranging finance
- Providing land, shed, power, water, and so on.
- Guidance for selecting and obtaining machinery
- Supply of scarce raw materials
- Getting licences/import licences
- Providing common facilities
- Granting tax relief or other subsidy
- Offering management consultancy services
- Help marketing the product
- Providing information

3. Sustaining activities: These activities are all those that help in the continuous and efficient functioning of entrepreneurship. These include modernisation of infrastructure, encouraging diversification, providing opportunities and supporting industry-institute interaction through consultancy, promoting quality, and organising need-based common facilities centres. The various sustaining activities are as follows.

- Help modernisation
- Help diversification/expansion/substitute production
- Additional financing for full capacity utilisation
- Deferring repayment/interest
- Diagnostic industrial extension/consultancy services
- Production units legislation/policy change

1. Pareek, U. and T. V. Rao (eds.). 1978. *Developing Entrepreneurship*. New Delhi: Learning Systems. 2. Gupta, C. B. and N. D. Srinivasan, (1997). *Entrepreneurship Development in India*. New Delhi: Sultan Chand and Sons.

- Product reservation/creating new avenues for marketing
- Quality testing and approving services
- Need-based common facilities centres

DISCUSSION FORUM

- Compare the different entrepreneurial development models.
- Explain the stages for promoting small entrepreneurship.
- Discuss in small groups entrepreneurial development cycle.

PROBLEMS FACED BY ENTREPRENEURS AND CAPACITY BUILDING FOR ENTREPRENEURSHIP

Entrepreneurs face a number of problems in the promotion of units and during production, marketing, distribution, procurement of raw material, and availing of incentives offered by the State government.

However, it would be of great interest to broadly study the common general problems faced by the entrepreneur and the specific problems faced by his units. A conceptual framework of the problems faced by the entrepreneurs in general is discussed here.

The problems of entrepreneurs may be divided into two groups—**external and internal.** External problems are those which result from factors beyond the control of the entrepreneurs while internal problems are those which are not influenced by external factors.

The problems of industries, whether in the small sector or in the organised sector, are almost identical. However, given that the organised industry is financially very strong and its resources large, it can, therefore, face its problems more effectively. Owing to its weak financial structure, the resources of the small sector are limited. While the large sector can employ trained and experienced managers, in the small industry, its proprietor or partners or, if the unit is a company, its director or directors themselves have to take care of all the problems. The large sector can influence its raw material suppliers, its customers and at times even the government in framing its policies, but the small entrepreneur is helpless in this respect.

Internal Problems of Entrepreneurs

1. Planning

(a) Technical feasibility

- Inadequate technical know-how

> **SNAPSHOT**
>
> **Problems faced by entrepreneurs are:**
>
> a. Internal problems b. External problems and c. Specific management problems.
>
> **To build capacity for entrepreneurship following measures can be taken:**
>
> Availability of credit, imported raw materials, skilled labour, Technology and Equipment, Infrastructural facilities, Advisory Services and access to market.

- Locational disadvantage
- Outdated production process

(b) Economic viability

- High cost of inputs
- Break-even point too high
- Uneconomic size of project
- Choice of idea
- Feeble structure
- Faulty planning
- Poor project implementation
- Lack of strategies
- Lack of vision
- Inadequate connections
- Lack of motivation
- Underestimation of financial requirements
- Unduly large investment in fixed assets
- Overestimation of demand

2. Implementation

Cost over-runs resulting from delays in getting licences, sanctions, and so on, and inadequate mobilisation of finance.

3. Production

(a) Production management

- Inappropriate product mix
- Poor quality control
- Poor capacity utilisation
- High cost of production
- Poor inventory maintenance and replacement
- Lack of timely and adequate modernisation and so on
- High wastage
- Poor production

(b) Labour management

- Excising high wage structure
- Inefficient handling of labour problems
- Excessive manpower
- Poor labour productivity
- Poor labour relations
- Lack of trained skilled labour or technically competent personnel

(c) Marketing management

- Dependence on a single customer or a limited number of customers/single or a limited number of products

- Poor sales realisation
- Defective pricing policy
- Booking of large orders at fixed prices in an inflationary market
- Weak market organisation
- Lack of market feedback and market research
- Unscrupulous sale purchase practices

(d) Financial management
- Poor resource management and financial planning
- Faulty costing
- Dividend policy
- General financial indiscipline and application of funds for unauthorised purposes
- Deficiency of funds
- Over trading
- Unfavourable gearing or keeping adverse debt equity ratio
- Inadequate working capital
- Absence of cost consciousness
- Lack of effective collection machinery

(e) Administrative management
- Over centralisation
- Lack of professionalism
- Lack of feedback to management (Management Information System)
- Lack of timely diversification
- Excessive expenditure on R and D

External Problems of Entrepreneurs

(a) Infrastructural
- Location
- Power
- Water
- Post Office and so on
- Communication
- Non-availability or irregular supply of critical raw materials or other inputs
- Transport bottlenecks

(b) Financial
- Capital
- Working capital
- Long-term funds
- Recovery

(c) Marketing
(d) Taxation
(e) Raw material
(f) Industrial and financial regulations
(g) Inspections
(h) Technology
(i) Government policy
(j) Administrative hurdles
(k) Rampant corruption
(l) Lack of direction
(m) Competitive and volatile environment

Specific Management Problems

Besides internal and external problems of entrepreneurs, some specific problems faced by the entrepreneurs are discussed in this section.

Management deficiency: It is a well-known factor that management deficiency is one of the main reasons for poor performance and sickness of small enterprises. The new entrants in the field of small industries in general do not have any prior training or background in the management of their units. With growing sophistication and modernisation of market requirements for their products, it is very important for entrepreneurs to employ modern methods of management. Eighty per cent of the units under study faced a problem on the management front due to lack of professionalism. Entrepreneurship is not only an inborn gift; it can be cultivated through application and training. Various colleges and universities in advanced countries offer courses in starting and managing small enterprises.

Finance: Financial inadequacy is also reported to be one of the most important causes leading to sickness of small-scale units. A survey carried out in various parts of the country reveals that 70 per cent of the units have considered finance as a stumbling block in setting up and diversification of industrial units.

Critical issues in financial management require to be constantly borne in mind to ensure that a small-scale business enterprise remains healthy. Planning for profits must be ensured at all times by resorting to periodical performance evaluation and while reporting such performance—actual or planned—the merits of being conservative should not be lost sight of. Proper utilisation of various assets is critical to profit maximisation. Along with credibility, solvency and liquidity are essential for enterprise growth. During emergencies, liability management can be helpful. But all this would be possible only if proper books of accounts are maintained. An accountant ensures criticalities involved in financial planning and management and takes care of timely provision of financial information. All aspects of financial management contribute in a small or big measure in maintaining business survival and growth.

Manufacturing and technical problems: Most units face production problems due to lack of raw material availability, skilled labour shortage, under-utilisation of capacity, and time and cost overrun. Manufacturing and technical problems arise right at the stages of project planning and feasibility report preparation. Problem areas are product pricing; selection of right equipment, plant and machinery; selection of personnel and training them; technical know-how; technology transfer; industrial engineering; production engineering; use of standard quality control and use of high-tech equipment.

Product planning: The selection of product depends on technical know-how, infrastructure facilities available, and technical and managerial abilities of entrepreneurs to complete a project successfully. No product planning is done by most SSI units.

Selection of equipment, plant and machinery: No detailed scrutiny is done before selecting equipment, plant and machinery. However, this needs to be done and while doing so, entrepreneurs should give importance to production capacity, process capability, accuracy requirements, and other supporting facilities. They are required to look for alternative and appropriate high-tech equipment if they are techno-economically feasible. These high-tech equipment are known for their quality, quantity, reliability, and high productivity. These qualities increase productivity and lower the cost of production.

Human resource development: Most SSI units do not give any consideration to human resource development. Selecting the right person for the right job would contribute for smooth and efficient working of the enterprise. After selecting the right personnel on scientific lines, it is very essential to train them at appropriate organisations so that they have, both theoretical and on-the-job training in improving the productivity of the enterprise. Entrepreneurs should know that it is not machines alone that work, but the people behind the machines who make it work. Organisations like NITCON and various training institutes are coming forward in a big way to help small business houses train their personnel.

Technical know-how: Most SSI units are neither technically equipped nor do they possess technical know-how. While there are numerous ways of doing a job, there is only one way of doing it in a manner that is most effective, efficient, and highly productive. Many entrepreneurs do not realise this and their trial and error method wastes time, money, energy and other resources. It is, therefore, better that entrepreneurs consult and contact organisations that are doing pioneer work in the areas of technology development and technology transfer. These are non-profit government organisations established for the purpose of helping industries.

Preparation of project report: A project report is usually not prepared on scientific lines. Very often project feasibility reports are prepared for availing loans. A project report, also referred to as pre-investment feasibility study, or business plan, is a detailed description of the business you want to be in, how the business will achieve its stated goals, and when that would happen. It is an operating document—the description of a project indicating what products are to be manufactured or what services are to be offered and to whom. While such an operational description is relatively easy to formulate. It is essential that the promoter of a business venture have conceptual clarity on what business he is in. Details regarding the infrastructure required for the business, manpower, material, and financial resources needed to reach the envisaged activity level; how such resources would be mobilised and managed and with what financial resources; how the business will achieve the stated goals, the time frame within which a project will be implemented; when it will produce the envisaged output and when the business would reach optimal activity level generating financial surplus—these would constitute a business plan.

Capacity Building for Entrepreneurship

India has an extraordinary talent pool with virtually limitless potential for entrepreneurship. India must, however, commit to creating the right environment to develop successful business builders. To do this, India must focus on four areas.

1. Create the right environment for success: Entrepreneurs should find it easy to start a business. To do so, most Indians would start slow, with capital borrowed from family and friends; the CEO playing the role of salesman and strategist; a professional team assembled months or perhaps years after the business was created; and few, if any, external partners. Compare this with a start up in the Silicon Valley: a venture capitalist (VC) or angel investor would be brought in early on; a professional management team would drive the business; a multifunctional team would be assembled quickly; and partnerships would be explored early on to scale up the business.

Box 2.4 Some General Problems of Small Entrepreneurs

- Inadequate technical support to entrepreneurs in respect of product identification and machinery installation from SISI. The difficulty has been in breakdowns, upgradation of technology, and R and D quality control.
- Non-availability of suitably updated handbooks about the various industries in SISI.
- The hire-purchase scheme of providing assistance to SSI help only the larger entrepreneurs in the small-scale sector, leaving smaller units financially deprived.
- Delays in provision of infrastructure facilities like sheds, water, raw material, and so on.
- Delay in payment of bills creating liquidity problem for SSI units.
- Low recovery of bank funds because of difficulties in identifying genuine entrepreneurs.
- Lack of coordination between banks and state financial corporation and other agencies in assisting SSI units.
- Lack of expertise on the part of small-scale entrepreneurs in maintaining records and books.
- Innumerable laws relating to labour, excise, taxes and other areas required to comply with that of a unit holder.
- Lack of professionalism on the part of bankers in rendering timely and adequate financial assistance and consultancy to SSI entrepreneurs.
- Overlapping of many items reserved for purchase from the small sector.

Box 2.5 Self-made Entrepreneurs

- 34-year-old Baldau Ram Sahu, a farmer of village Kapsada in the Raipur District of Chhatisgarh, owned just two cows and five buffaloes. That was till 1999. By 2002, he transformed his small milk trade into a major business activity with 25 dairy animals milk per day.
- Hussaina Bano of Khartdwa in Madhya Pradesh had neither any business background nor much education. She had studied upto class V. Today, her enterprise "Hussaina Store" has a monthly sale of nearly Rs 10,000.
- Rashmi Nayyar of Dewas did her M.Sc. in Chemistry and Master of Computer Management. Though she could easily got a job in the IT field, she had a burning desire to be her own boss. She set up Ekta Computer and Graphics where she teaches computer to over 25 students a day and trains young students from other strata of society as well.
- The above examples of self-made entrepreneurs are a just a "pick" from the thousands of men and women who have taken to entrepreneurship rather than getting into some or the other job. Their mantra for success is self-confidence, hard work and application. Rashmi says, "Whatever be the unit that you set up or the field of work that you choose, make grow and develop it through hard work, application and effort."

To a large measure, culture shapes this style. Silicon Valley is abuzz with ideas to build global businesses; deals are continually being negotiated, teams are pulled together and partners are identified. There is almost unlimited access to multiple VCs and angel investors. Critical support services abound, including professional managers, legal firms, venture capitalists, angel investors, and placement agencies. Combine this with excellent infrastructure—connectivity, communication, and office space—and getting started is easy.

The first challenge for India is to create a handful of such areas of excellence—the breeding ground for ideas to grow into businesses. Some already exist in a very preliminary way (the businesses are there). For example, Gurgaon and Hyderabad for remote services, or Bangalore for IT services. However, these areas of excellence need strengthening before they can claim to be India's own "valley". One way of strengthening these areas is to consider the role of universities and educational institutions—places where excellence typically thrives. Creating such educational institutions by strengthening the Indian Institutes of Technology (IITs) and starting new ones is going to be very important.

2. Ensure that entrepreneurs have access to the right skills: A survey conducted by McKinsey & Company revealed that most Indian start up businesses face two skill gaps: entrepreneurial (how to manage business risks, build a team, identify and get funding) and functional (product development know-how, marketing skills, and so on). In other countries, entrepreneurs either gain these skills by hiring managers or have access to "support systems" such as universities or other institutions that may nurture many regional businesses. In addition, business schools give young graduates the skills and knowledge required for business today.

Visit www.entrepreneur.com and www.entreworld.org to learn more about problems of entrepreneurs and capacity building for entrepreneurship.

India can move towards ensuring that the curriculum in universities is modified to address today's changing business landscape, particularly in emerging markets, and build "centres of entrepreneurial excellence" in institutes that will actively assist entrepreneurs.

3. Ensure that entrepreneurs have access to "smart" capital: For a long time, Indian entrepreneurs have had little access to capital. It is true that in the last few years, several venture funds have entered the Indian market. And, while the sector is still in its infancy in India, VCs are providing capital as well as critical knowledge and access to potential partners, suppliers, and clients across the globe. However, India has only a few angel investors who support an idea in the early stages before VCs become involved. India Venture 2000 showed this to be a critical. gap. While associations such as TIE are seeking to bridge the gap (by working at creating a TIE India Angel Forum), this is India's third challenge: creating a global support network of "angels" willing to support young businesses.

4. Enable networking and exchange: Entrepreneurs learn from experience—theirs and that of others. Much of the success of Indians in Silicon Valley is attributed to the experience, sharing, and support TIE members have extended to young

Box 2.6 Acquiring Entrepreneurship

- People ask a valid question, "Can entrepreneurship be really acquired"? The answer is, "Most certainly." According to sociologists and psychologists, everyone is born with infinite potential for growth. Those occupying top positions in industry, government, or elsewhere today are not necessarily persons born with a silver spoon. There are umpteen examples of those who started from scratch and reached enviable positions in 25–30 years. What are their attributes? Intense desire to be different from others, open-eye and ear approach, enterprising spirit, and determination to meet any challenging situation.
- No one is born a businessman or businesswoman anymore than one is born a doctor or engineer or lawyer or administrator or entrepreneur. To be successful in any entrepreneurial area, one must learn not only the basic techniques but also how to apply those techniques. Let us illustrate this with an example.
  - Under the Prime Minister Rojgar Yojana (PMRY), it is mandatory to undergo a 10-day training organised by specified institutions before persons are disbursed financial assistance by banks.
  - The beneficiaries under PMRY must be persons in the age group 18–45, with a minimum educational qualification of class VIII Pass. They include women, ex-servicemen, physically challenged, those belonging to SC/ST/Backward Classes, and so on. The 10-day well-planned rigorous training covers both classroom and field training.
  - The sessions cover Communication, Motivation, Financial Accounting, Marketing, Insurance, Taxation, Banking, and Project Report. By undergoing such training, the participants develop competence and capacity to set up and then run their own small units.

entrepreneurs. During India Venture 2000, established entrepreneurs, who still remembered the challenges they faced, offered to support startups. Clearly, India would benefit from creating a strong network of established entrepreneurs and managers that entrepreneurs could draw on for advice and support.

The rapid pace of globalisation and the fast growth of Asian economies present tremendous opportunities and challenges for India. Through planning and focus, India can aspire to create the pool of entrepreneurs who will be the regions'—and the worlds'—leaders of tomorrow.

DISCUSSION FORUM

- Discuss the problems faced by entrepreneurs during various stages of the venture.
- What are the strategies you suggest in capacity building for entrepreneurship?

Box 2.7 Capacity Building for Prospective Entrepreneurship

Entrepreneurship has its own rewards. An entrepreneur is his own boss, can set his own hours, can own his business with investment—partly his own and partly from banks, is his own master and can plan the growth of his enterprise the way he wants. Here are some tried steps for capacity building for prospective entrepreneurship.

- Positive attitude Success in one's own enterprise, as in all areas of life, is 90 per cent attitude and 10 per cent aptitude. A positive attitude is bound to lead to success.
- Learn to handle money intelligently For success as an entrepreneur, it is absolutely necessary to become an efficient money manager.
- Expect "no" Realise that no's are not personal. In business, as perhaps nowhere else, the law of averages works. Every "no" gets you closer to a "yes". Do not get disheartened by "no". Put your best foot forward and you will get a "yes".
- Be involved Both in online communities and offline in your local community, know what is going on and what is current in your field. Be a part of what is going on and network with others in your field.
- Remember the magic word In business the magic word is "Ask". Never expect the business to come to you. You create your business by asking for it. Ask for business and you will close sales. Ask for referrals, you will always have a full list of potential clients/customers/users.
- Be a goal setter Set your goal, write it down, set a target for achieving the goal and mobilise all your energies and resources to accomplish the same each day, each week, and each month. Little is ever accomplished without definite goals.
- Be organised Each evening, list all the things you want to get done the following day. That gives you an organised approach to each day. As each task is finished, mark it off your list. It is amazing how much can get done when one works with a "things-to-do" list in an organised way.
- Be enthusiastic Enthusiasm is the "fuel" that entrepreneurs run on. Enthusiasm generates its own energy. Energy and good health are synonymous with busy, happy people and people who are achievers.

PROFILES OF SUCCESSFUL ENTREPRENEURS

Rags to Riches—Dhirubhai Ambani

This is the story of a man who rose from obscurity to create corporate history. This is the story of Dhirajlal Hirachand Ambani (fondly called Dhirubhai), born to Jamunaben and Hirachand Govardhandas Ambani, a lowly paid schoolteacher, in 1932, in Chorwad, a village in Saurashtra region of Gujarat.

The man hailed as the messiah of the investing masses began his great journey into the corporate world at the age of 17 when he followed his elder bother, Ramniklal Ambani, to Aden in 1949 and took up his first job of filling gas at a Shell pump at a monthly salary of Rs. 300.

He returned to Mumbai (then Bombay) in 1958 and began trading in spices such as ginger and turmeric. A firm, Reliance Commercial Cooper-ation, was simultaneously floated with a capital of Rs. 15,000.

In 1959, Dhirubhai switched his trading business from spices to yarn.

He earned quite handsomely in the yarn business and graduated from a yarn trader to a mill owner in 1966 by setting up a small textile mill at Naroda, near Ahmedabad.

He expanded the small textile unit into India's most modern textile mill. This was the period when the Indian Government allowed earnings from rayon fabric exports to be used for importing nylon fabric. This was also a period when the Indian government faced a massive foreign exchange crisis. This provided Ambani's company an opportunity to foray into exports in a big way. The massive profits made from exports to Russia, Poland, Zambia, Uganda, Saudi Arabia, and other countries were spent on expansion and modernisation of the Naroda mill.

The year 1977 was definitely a turning point in the history of Reliance Industries Limited when the company went public. Dhirubhai succeeded in mobilising 58,000 investors. The marathon task was achieved despite the warnings of the merchant bankers to the people to keep off the issue. Several of these investors were investing in shares for the first time. The march continued as Dhirubhai successfully introduced convertible debentures and mobilised another Rs 400 crore. He also managed to procure a loan to manufacture Polyester Filament Yarn (PFY).

Another major resource generation step of the Ambani group was when Reliance Petrochemicals floated a Rs 516 crore public issue in 1988. Over 20 lakh investors responded. In 1993 RIL it emerged as India's largest private sector company with sales crossing the Rs 4,000 crore mark. It also figured among the top 50 companies of the developing countries listed by *Business Week*.

To Reliance also goes the credit of entering the US debt market in 1997 with a bonds issue. This was a first instance of an Asian company entering the US market. In the same year, the Hazira complex was completed. Dhirubhai created another record of sorts when he dedicated the world's largest grassroots refinery, valued at Rs 25,000 crore, at Jamnagar, to the nation.

Just before his death in July 2002, Dhirubhai created India's only private sector 'Fortune 500' company by merging RIL and RPL. His sons, Mukesh and Anil, slowly began to emerge from the shadows of their illustrious father.

Reliance Group's Major Businesses	Reliance Group of Companies
◆ Petrochemicals	◆ Reliance Industries Ltd.
◆ Polyester fiber	◆ Reliance Capital Ltd.
◆ Polyester filament yarn	◆ Reliance Industrial Infrastructure Ltd.
◆ Oil and gas exploration and production	◆ Reliance Power Ltd.
◆ Refining and marketing of petroleum	◆ Reliance Telecom Ltd.
◆ Textiles	◆ Reliance Infocom Ltd.
◆ Power	◆ Reliance Life Insurance Co. Ltd.
◆ Telecom	◆ Reliance General Insurance Co. Ltd.
◆ Infocom	◆ Reliance Communications
◆ Financial services	

Both sons are cast in the mould of their father and despite their elite education, the duo regarded their father as the biggest training ground and a role model.

Dhirubhai was a man with an earthy vocabulary, possessing no airs of a management genius or a great business tycoon. He attributed his success to being a step ahead of the main competition, looking ahead and scoring a bull's eye with most of the bold steps and decisions he took.

The Nirma Story—The Saga of Karsanbhai Patel

Business opportunity identification

Karsanbhai Patel's life typified that of millions of other Indians. He worked as a chemist with Gujarat Mineral Development Corporation in Ahmedabad in the western state of Gujarat, earning a meagre salary on which he was desperately struggling to make ends meet. At the same time Karsanbhai recognised that there was a vacuum in the rural Indian market for an affordable detergent. There were low quality soap bars that did not wash very well and were very time intensive or there were up market detergent brands that washed very well but were too expensive. Karsanbhai recognised the need for an affordable detergent and concluded that a good product would create its own market. On the basis of this rather simplistic but accurate belief, Karsanbhai started conducting experiments in his kitchen. His efforts finally yielded a pale, whitish-yellow powder that he named "Nirma", after his then one-year-old daughter Niranjana. In no time he began producing small quantities of washing powder and selling them to his neighbours. He look on the might of the giant multinational Hindustan Lever with his puny, homespun unit. He packaged his product in small pouches with neither colourful decorations nor designs. Every morning Patel got onto his bicycle and went from door to door selling his washing powder.

For harried housewives, struggling to balance their monthly budgets, the product came as a boon. It was much cheaper than Surf, which had already gone well out of their reach; and it washed clothes nearly as well. Its cleansing power was far superior to that of the slabs of cheap washing soaps that had been their sole alternative until then. As word-of-mouth spread, Karsanbhai got more and more customers to whom he effected his deliveries on foot.

Soon wholesalers and distributors from different neighbourhoods, towns, cities, and States of India started arriving at Karsanbhai's doorstep to buy and redistribute Nirma. Karsanbhai took on no responsibility for delivery or distribution; but his product was soon available in every corner of India.

As television reach spread in India during the late 1970s so did Nirma's. The little girl on the pack became a symbol that was almost generic with a good quality, low-priced detergent. A catchy single hammered home the message to millions of housewives. It was as if a down market consumer revolution had taken off.

Today Nirma sells over 800000 tonnes of detergent annually, giving it a 35 per cent share of the market.

The story of Nirma has become a classic as a marketing case study.

Nirma products: Even the second product that Karsanbhai introduced—a low-priced toilet soap, which he thoroughly test marketed in Gujarat before going national with it in 1990—has been faring well.

As with Nirma detergent, Karsanbhai did not start up a media assault until his entire distribution network had the product in place.

A toothpaste, which Karsanbhai claims has been developed with indigenous technology, is next in the pipeline, but has already taken nearly four years on the drawing board.

Problems: Of late, Karsanbhai has encountered several other problems that promise to try his managerial skills to the utmost. One is the fact that his size has expanded so much that he is deemed to be a public limited company. That status will deprive his products of their edge in price, because they will be gathered into the excise net.

The intrepid entrepreneur also faces intense competition from the small sectors, which was his initial launch pad. Inspired by the success of Nirma, there are literally hundreds of soap-makers, who have made Ahmedabad the detergent capital of the country. Since transportation costs are a very crucial part of the costing in a low-priced detergent, many manufacturers are locating their factories as close as possible to their eventual sales points to save on transport costs. Nirma could well lose out soon on its best Unique Selling Proposition—price.

Another problem is that the sheer size of his operations makes it difficult for Karsanbhai to maintain the highly centralised style of running that has always been characteristic of Nirma. For an enterprise that is today competing with Godrej for the accolade of the largest privately owned business in India, Nirma has an exceedingly top light management structure, with barely 200 managers handling the huge 14,000 strong work force. Decision-making is restricted to a handful of top people.

The saga continues: Nirma has embarked upon two ambitious backward integration projects—manufacture of two key raw materials, Linear Alkyl Benzene (LAB) and Soda Ash, with a view to control almost 85 per cent of its detergents raw material requirement.

Karsanbhai's concern for the environment is noteworthy. For instance, his detergent powder is completely eco-friendly since it is phosphate free and biodegradable. Nirma's LAB plant is India's most environment-friendly of its kind.

Karsanbhai considers contributions to society vital—he has constantly endeavoured to pay back what he sees as his own debt to society. This has taken various forms over the years, including a number of agencies, bodies and causes, like the Nirma Memorial Trust and Nirma Foundation, which look after deprived women in Gujarat, as well as ashrams and guest houses for pilgrims and the elderly.

With an intense desire to provide world-class technical and managerial education, Karsanbhai Patel set up the Nirma Education and Research Foundation. Today, the Nirma Institute of Technology, Nirma Institute of Management, and Nirma Institute of Diploma Studies have become the most sought-after institutes of the student community not only in Gujarat but also in different parts of the country.

The King of Omega-3—P. J. Kunjachan

"Hard work, luck, all of them remain complimentary to my success mantra—do what you have to do today, today itself," says P.J. Kunjachan, the CMD of Arjuna Natural Extracts Ltd., Kerala.

To have assumed the driver's seat, after a modest, humble beginning in 1989, today, Mr. Kunjachan leads the flagship company, Arjuna Natural Extracts Ltd., Kerala an ISO 9002 GMP Institution having Livelong Nutraceuticals Ltd. and Herbal Supplements Ltd. as prime associate companies. Add to it 300 acres of prime land farming and an innovative integrated dairy project, up in the high ranges of Kerala, flourishing under his direct supervision.

Ten thousand square metres of processing plants alone, two factories in Tamil Nadu, two in Kerala, world class red facilities approved by the Ministry of Science and Technology, Government of India, for in-house research, experts comprising clinicians, ayurvedic physicians, phytochemists, botanists, and scientists manufacturing more than 40 standardised herbal/spice extracts, marketing in over 30 countries for more than a decade, the largest manufacturer of omega-3 concentrates in Asia—CEO Kunjachan is a busy entrepreneur! More so because he started his career as a proofreader in local daily with Rs 1.50 per day as wages and that too he had to literally "snatch" from his employer.

Kunjachan was the fourth of six children, born to an Ayurvedic physician and a hard working housewife. As his parents were struggling to make both ends meet Kunjachan's education came to a halt after his pre-degree course.

He became proofreader for a local mid-day daily *Indian Pouran* for nearly one and a half years. Thereafter he began a joint venture supply chain at home. Since he did not have sufficient money, he became the working partner in a system to distribute major newspapers in his village. His partner invested the initial amount and Kunjachan did the rest, that is, manage the entire operations.

A voracious reader of newspapers, he learnt about the scope of running the distribution of a fertilizer manufacturing company in his locality. He invested his small savings and soon became the distributor for the State of Kerala. His business grew steadily. Companies dealing in products related to the fertilizer industry like poisons also became his partners in business. Slowly he reached a position to do something new on his own, that others were normally reluctant to do in view of the risks involved.

Therefore, he ventured into the more risky field of manufacturing. He started a bone meal factory in Tamil Nadu to minimise operational costs and also avoid political interference to some extent. The business did very well.

Then came the transformation to natural extracts. Together with his brother-in-law Benny Antony, a biochemist, he launched Arjuna Aromatics in 1989. With its due share of successes and setbacks, Arjuna Aromatics' products started getting global acceptance. Then following his next desire and ambition—agriculture, farming, plantation, Kunjachan purchased approximately 200 acres of cardamom plantation in Munnar. Planting and re-planting was soon in full swing. And then Kunjachan took up another ambitious project to set up a plant for manufacturing Omega-3 fatty acids from fish oil.

The facility in Tamil Nadu can be best described as the largest unit manufacturing Omega-3 fatty acids from fish oil in Asia. They have won awards from government and non-governmental agencies for export and innovations. Global patents are pending for at least four products. The organisation has grown manifold. Arjuna Natural Extracts, (as it is now called) has become a public limited company with Livlong Nutraceuticals Ltd. and Herbal Supplements Ltd. as fully owned subsidiaries.

Visit *www.ril.com, www.asiaweek.com, www.indiabschools.com, www.nirma.com, www.arjunanatural.com* to learn more about the entrepreneurs and enterprises built by them.

Leading his business from the front is P.J Kunjachan. A man, who had not even a penny to start off but a success mantra, proven and now time tested, and a flair for new ideas and instinct to like, attract and retain people. Till date there have been no dropouts or resignations from his team. A handful of people who left were actually encouraged to take up better positions by Kunjachan himself. Absenteeism and labour problems are alien terms for him. His vision of employing as many people as he can continues to thrive and his affinity for unflinching quality standards continues to yield results. His inborn talent of maintaining excellent human relations makes him a CEO who always finds time to visit factories and plantations and, more importantly, talk to his team members.

SUMMARY

- The word "entrepreneur" is derived from the French verb *enterprendre,* meaning "to undertake". Entrepreneurship can be defined as a process of action an entrepreneur undertakes to establish his enterprise.
- Creativity, innovation, dynamism, leadership, teambuilding, achievement motivation, problem solving, goal orientation, risk and decision ability, and commitment are considered to be the characteristics of a successful entrepreneur.

- Entrepreneurship falls within six schools of thought, each with its own underlying set of beliefs. Each of these schools can be categorised according to its interest in studying personal characteristics, opportunities, management, or the need for adapting an existing venture.
- The models suggested for the development of entrepreneurship can be stated as the psychological models, the sociological models, and the integrated models.

KEY WORDS

- Entrepreneurship
- Entrepreneur
- Enterprise
- Enterprendre
- Creativity
- Innovation
- Dynamism
- Leadership
- Teambuilding
- Achievement motivation
- Problem solving
- Goal orientation
- Risk taking
- Decision making
- Commitment
- Business plan
- Opportunity
- Identification
- Marshalling
- Germination
- Rationalisation
- Incubation
- Illumination
- Verification
- Validation
- Industrial vodoo
- Compensation system
- Core competency
- Imitative
- Adoptive
- Fabian
- Drone
- Prime mover
- Manager
- Satellite
- Trading
- Wholesaling
- Retailing
- Service
- Intrapreneurship
- Stimulatory
- Rags to Riches

CASE STUDIES

Divide the class into small groups not exceeding five students each. Discuss this case in groups. Prepare answers for the case questions. All the groups have to prepare a 15-minute PowerPoint presentation on the case analysis. All the groups have to make the presentation in front of the panel consisting of three Professors of your Institute. After all the presentations are over, the panel has to decide the winner and the first and second runner-up.

Request your professor to supervise this exercise.

Case 2.1 Entrepreneurship—Luck or Persistence?

When Deepak Joshi was 17 years old, he sampled ice cream at a store and thought that he could make it better. He made his own recipe and began selling ice cream bars, cones, and cups in his hometown of Belgaum. People began asking him for more. Deepak got himself trained at Mysore and developed skills to prepare ice creams of different flavours and compositions. Using meagre profits and his mother's kitchen, Deepak Joshi began making large batches of ice creams. He then designed his own wrappers and developed a commission system for friends who sold ice creams at several schools.

Business was so good that it became an obsession. Deepak worked after college, weekends, and holidays, and aside from a brief period when the health department suspended his operations until he obtained proper permits to make ice creams, he made different types of ice creams by trying his own methods until he graduated from college. At first, he could meet the demand without purchasing special equipment or sacrificing other activities, but when he began providing ice creams for college fund-raising events and fun fairs, demand exceeded capacity, and Deepak found himself buying professional equipment, hiring helpers, and purchasing bulk supplies.

Looking back, Deepak recalled the obsession, the long hours, and the drive to learn about business. Deepak set about placing orders with local stores and developing contracts with dozens of schools, colleges, caterers, hotels, and civic organisations. His business soon consumed his entire family and closest friends; he registered the company and set up an ice cream parlour. During the first month, he had 18,000 orders, and by the time he graduated, Deepak was distributing specialty ice creams to retail stores in three States.

At the age of 26, Deepak repositioned his company as a major distributor of specialty ice creams and began planning a chain of upscale ice cream parlours which would complement his current ice cream manufacturing and distribution system. When he paused to think about his plans, he realised that to launch a regional or national chain would mean major changes in his organisation. He and his family could not handle all the responsibilities, and the nature of Deepak's ice cream business would change. Although the idea of pursuing a major business was exciting, Deepak would not help feeling apprehensive.

Reflecting upon his business, Deepak realised that many people considered his success to be no more than the luck of a personable young man who made good ice creams and had accidentally stumbled upon a few good markets. In fact, he had worked extremely hard to attract clients. Most of his customers had not been comfortable buying from a young college student, and customers seldom took him seriously until they had dealt with him for a long time. Winning over customers had always been a challenge to Deepak, not a roadblock, and creating unusual ice creams had been exciting.

He was not anxious to become a corporate manager, and although he had always worked well with others, Deepak liked being independent. Running a company would mean sacrificing his autonomy, yet the idea of a chain of stores selling his specialty ice creams had been a dream for years. At the same time, expansion would mean financial risk, and Deepak had always avoided debt; he dealt in cash and had always carefully calculated his expenses to avoid even the slightest loss. He realised that he was at a major crossroad in his young career. The choice seemed to be whether to follow his dream and expand or to be content with his existing business.

Case Questions

1. Identify the entrepreneurial characteristics of Deepak Joshi. How do they match the characteristics described for successful entrepreneurs?

2. Take a position regarding the decision facing Deepak on whether to expand into a chain of ice cream parlours.
3. Based on what you know about Deepak and what you believe his characteristics to be, would you say his success was due to luck or persistence? Explain. How does luck play a role in any new venture?

Case 2.2 Pain of Partnership

Mahesh and Raja met while working at a Compaq disc production company. Mahesh was in charge of editorial and production, Raja ran the sales force. Mahesh decided to start his own company and invited Raja to join him. Raja would handle sales and administration, while Mahesh managed the clients and directed production.

MR communications seemed like a perfect partnership. Things seemed to be going well, and they even landed a major project.

As time went by, Raja decided tht he wanted a "creative" job too. He spent most of his time producing Compaq discs rather than looking for new business. Mahesh's loyalty to Raja made him blind to many things that were obvious to others. Because of their friendship, he trusted that Raja was taking care of his side of the business. As it turned out, Raja was not very good at the tasks he had taken on. He made mistakes that reduced expected profits. He was not making new sales contacts, which was supposed to be the main part of his job. If that were not enough, the feeling that he was letting his friend down made Raja feel even worse. Raja began to avoid talking to Mahesh. He stopped coming into the office. Finally, he stopped returning phone calls.

By the time Mahesh realised what was happening to the business, it was too late. There were no new sales. What Mahesh thought were profits was the result of Raja not paying their bills. Mahesh was left with more than Rs 5,50,000 in unpaid bills and other debts. A tearful message on the answering machine from Raja "I'm moving out to Chennai for a while. Sorry it didn't work out."

It took Mahesh three years to dig out of the financial mess and get his new company up and running successfully.

Case Questions

1. How could Mahesh and Raja have avoided the problems that led to the end of their partnership?
2. Why is this situation a good example of the difficulty in maintaining partnerships between friends?

EXERCISES

Exercise 2.1

Do you have what it takes to be an entrepreneur?

Successful, self-made business people have some key traits and characteristics. You may not have all the necessary skills but then nor does every successful entrepreneur.

We are all different. In other words, we all have distinctive ways of operating in this world. This self-assessment will help you identify your strengths and weaknesses and take the necessary corrective measures. For each of the following statements, select the number on the scale that corresponds with your answer.

Remember; there are no right or wrong answers, so be as honest as you can.

Scale 1 = Not at all 2 = Disagree 3 = Neither agree nor disagree 4 = Agree 5 = Strongly agree

	Statements	*1*	*2*	*3*	*4*	*5*
1.	In a complex situation, I tend to rely upon my intuition and instinct to help make a decision.					
2.	It's important to make a mark in this life.					
3.	Most people who know me would agree that I'm quick to see a good opportunity.					
4.	I'm prepared to take risks where other people hesitate.					
5.	When I set myself a goal, I keep going after it no matter what the obstacles.					
6.	Most people would describe me as an energetic person.					
7.	I can immediately see all implications of a particular situation, and anticipate the potential problems.					
8.	I try to learn from my mistakes so that I can get it right next time.					
9.	Most people who know me well would agree that I'm always seeking out opportunities for personal growth and development.					
10.	I have confidence in my own skills and abilities.					
11.	It's important for me to have control over how I do my work.					
12.	I don't let setbacks bother me; I keep on pushing.					
13.	I am willing to take calculated risks.					
14.	I want to make a lot of money.					
15.	I know that I will be successful in whatever I choose to do.					

Scoring Add up the score for each statement and take a look at the final score to understand your profile.

A score of 65 and above indicates that you have a firm belief in your capabilities and a powerful drive to achieve. Being your own boss, with the freedom to select what you do and how you do it, is important to you as is personal growth and development. You see your business as a means of expressing yourself as a person. An ability to take risks, bouncing back from setbacks and the ability to solve problems will stand you in good stead as you plan your independent venture. Start right away.

A score between 50 and 64 indicates a strong will to achieve, good potential for entrepreneurship but you need to identify your areas of weaknesses which may act as barriers to achieving your goals.

A score between 35 and 50 indicates that you may have the drive but lack the perseverance and the grit to hang on when the chips are down. You might doubt your abilities at times, or may lack an ability to focus and plan. A checklist of entrepreneurial skills elsewhere in this chapter will give you an insight into what it takes to be on your own. Identify your weak areas and develop action plans to overcome them.

A score of 34 and below indicates moderate potential for entrepreneurship. You may like to look at other options that match your interests and personality.

Activity 2.1

Visit any local enterprise. Interview the entrepreneur; study his entrepreneurial journey; prepare the profile of the entrepreneur, not exceeding six A4 size pages with adequate margins and normal space between the paragraphs.

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2. *www.entrepreneur.com*

101 ways to be a better entrepreneur

3. *www.loc.gov*

The entrepreneur's reference guide to small business information

4. *www.entreworld.org*

Academic materials on entrepreneurship, awards, and more

5. *www.empretec.com*

A capacity-building programme to foster the growth and competitiveness of small-and-medium scale enterprises in developing countries. UNCTAD homepage.

6. *http://sbinformation.about.com*

Website on small business information.

3

Women Entrepreneurs

Kiran Singh from Rajasthan, India. Her business is costume design and dress making and she has mentored around ten women entrepreneurs.

"When women move forward, the family moves, the village moves and the Nation moves."

—Pandit Jawaharlal Nehru

Learning Objectives

- To introduce the concept of women entrepreneurship and identify the importance of women entrepreneurs
- To discuss the women entrepreneurship environment
- To illustrate the challenges in the path of women entrepreneurship
- To understand the significance of the empowerment of women by entrepreneurship and grassroot entrepreneurship through self-help groups (SHGs)
- To identify the institutions supporting women entrepreneurship in India
- To identify the top women entrepreneurs in India
- To present the profiles of successful women entrepreneurs in India
- To present the strength of women's organisations supporting women entrepreneurship

WOMEN ENTREPRENEURSHIP DEFINED

Definition

"An enterprise owned and controlled by a women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated by the enterprise to women."

—Government of India

"A woman entrepreneur can be defined as a confident, innovative and creative woman 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."

—Kamal Singh

Importance of Women Entrepreneurs

It is imperative to note the participation of women in economic activities as self-employed individuals. Many of the traditional occupations open to women were mainly based on caste and creed and the nature of self-employment was based on the standard of living. Presently, not only are women generating employment for themselves in the unorganised sector, they are also providing employment to others.

The country needs to mobilise and utilise fully all its resources including human resources. The participation of women in economic activities is necessary not only from a human resource point of view but is essential even for the objective of raising the status of women in society. The economic status of women is now accepted as an indicator of a society's stage of development. Therefore, it becomes imperative for the government to frame policies for the development of entrepreneurship among women. The long-term objectives of the development programmes for women should aim to raise their economic and social status in order to bring them into the mainstream of national life and development. For this, due recognition has to be accorded to the role and contribution of women in the various social, economic, political, and cultural activities.

Factors Influencing Women Entrepreneurs

The following are the major factors influencing women entrepreneurs.

- Economic independence
- Establishing their own creativity
- Establishing their own identity
- Achievement of excellence
- Building confidence
- Developing risk-taking ability
- Motivation
- Equal status in society
- Greater freedom and mobility

Women Entrepreneurship in Asia

Entrepreneurship has emerged as a major focus of attention in the last decades. Its scope has expanded beyond the scope of an owner-manager to include professional managers in large corporations and conglomerates who play the role of entrepreneurial managers. Being synonymous with creativity and innovation, entrepreneurship is claimed as an economic panacea for problems such as unemployment and lopsided development.

The focus of entrepreneurship in Asia and South East Asia is very relevant. In many developing countries, as in India, there is a concentration of small-and-medium-sized companies and family business. Based on ILO statistics (2004), the percentage of the total economically active population classified as employers and own account workers varies from 42 per cent in Indonesia, 36 per cent in Philippines, 30 per cent in Thailand, and 24 per cent in Malaysia.

In contrast, the percentage of self-employed and own account workers in more developed countries is much smaller— 8 per cent in USA and Canada, 11 per cent in France and UK, and 13 per cent in Singapore. In these countries, wage and salaried employment are much more important sources of livelihood than self-employment.

Self-employment is emerging to be a very important source of livelihood for women in Asia and South East Asia. This is due to paucity of employment opportunities. Additionally, many types of paid employment are felt to be more suitable for males than females (for example, mining construction). Furthermore, many women are less educated, having fewer technical skills.

Schumpter (1934), McClelland (1961, 1985), and Drucker (1985) recognised the entrepreneur as the determining factor in the creation of new wealth in society. In India, the 1990s have been the decade of entrepreneurial explosion. It is said that entrepreneurship has been the focal point of development. The new Industrial Policy has stated that the small-scale industrial sector has emerged as a dynamic and vibrant sector of the economy.

The 1970s saw women setting up their enterprises. They had begun to chop away at one of the last and most enduring bastion of male dominance—the no-women's land of business entrepreneurship, risk taking, and financial adventure. The present trend indicates that women are taking to business entrepreneurship not only in metropolitan cities such as Delhi, Mumbai, Kolkata, Bangalore, and Ahmedabad but also in backward areas like Bihar and in smaller towns (Dhillon, 1993).

This trend has arisen mainly because of the changes in social attitudes in urban areas; break up of the traditional joint family system; rising standard of living; opportunities for higher education for women, growing awareness for economic independence; consciousness of their potential; and credit and other facilities provided by the government to set up an enterprise.

In a study conducted in South East Asian countries, women make up a significant part of those classified as employers and self-employed. Averages range from 23 per cent to 30 per cent of the total for Indonesia, Malaysia, Philippines and Thailand. In manufacturing, trading, and community services in Indonesia, Malaysia, Philippines and Thailand, a substantial number of entrepreneurs are female.

Moreover, the percentage share of women who are employers and self-employed is rising all over South East Asia. Over two decades, from 1970 to 1980s, while the percentage of employers and self-employed in the labour force remained stable in all South East Asian countries, the percentage of women rose in virtually in all sectors.

The essence of the concept of entrepreneurship requires the existence of economic opportunity, sympathetic cultural forces, supportive government action, and strong personal values and traits. These facilitating factors are certainly not in favour of the women. It appears relatively easier for women in the more advantaged (but typically smaller) segments of the population to set up and sustain enterprises of their own. The real challenge in developing countries appears to be in bringing the vast majority of the disadvantaged into the mainstream of economic activity.

However, in times to come, it would be possible for women entrepreneurs to better manage work and home with flexible timings, work from home, and newer opportunities if they train themselves for entrepreneurship in the knowledge economy.

Women Entrepreneurs in India

The emergence of women entrepreneurs and women-owned firms and their significant contributions to the economy is visible in India. These businesses are ready for continued growth in the future.

The number of women entrepreneurs has increased, especially during the 1990s. The new generation of women-owned enterprises is actively seeking capital for their businesses, using modern technology to find and create a niche in both the domestic and export markets. While women-owned businesses possess the potential and are capable of contributing much more, it is essential to formulate strategies to invigorate, support, and sustain their efforts in the right direction.

Surveys demonstrate that women's primary entrepreneurial activity is focused on the small and medium enterprise (SME) sector. Approximately 60 per cent are small-scale entrepreneurs, 15 per cent are large-scale manufacturers, and the remainder consist of cottage and micro-entrepreneurs. They work in a wide range of sectors, from trade and services, to tailoring, beauty parlours, and printing. However, the involvement of women entrepreneurs in the production sector is minimal and the development of this sector is rather slow.

Empirical evidence shows that women contribute significantly to the running of family businesses mostly in the form of unpaid effort and skills. On the other hand, enterprises defined as being run by women (businesses in which women hold the controlling share) are in fact run in their names by men who control the operations and decision-making. Programmes meant to reach women entrepreneurs can succeed only if they take note of this paradox as well as of familial and social conditioning that reduces the confidence, independence and mobility of women. Programmes encouraging entrepreneurship among women will require a change in societal attitudes than a mere creation of additional employment opportunities for women. However, these programmes should go beyond subsidies and credit allocation to change in attitude, group and association formation, training in both managerial and technical skills, and other support services. For example, training in entrepreneurial attitudes should begin at the high school level through well-designed courses, which build confidence through behavioural games. Skills development is also carried out at several women's polytechnics and industrial training institutes all over India. There are several schemes, like the World Bank-sponsored programme to upgrade polytechnics. Separate institutes have been set up for women as well. Furthermore, appropriate training still remains the key to a successful programme to develop entrepreneurship among women. NGOs like RUDSET in Karnataka have been successful in achieving reasonably high levels of success.

In addition to training, availability of finance and other facilities like land, industrial plots and sheds is often a constraint that many women-owned business face. Funding is not easily available for the primary activities. Banks and moneylenders are reluctant to lend money due to the risk involved in these business and the high operational costs. However, there are schemes like the Integrated Rural Development Programme (IRDP) and the Prime Minister's Rozgar Yojana (PMRY), Small Industries Development Bank of India (SIDBI), which extend assistance for trading activities including simple trade finance.

Another area in which women face problems is marketing. Marketing implies both mobility and confidence in dealing with the external world, both of which women have been discouraged from developing by social conditioning. Women's organisations, associations, and NGOs have been trying to develop corporations to hold frequent exhibitions and set up marketing outlets to provide space for the display of products made by women. Some NGOs even use mobile marketing vans. However, these are not long-term arrangements and the quality control is inadequate. The long-term strategy should be to teach marketing skills to women entrepreneurs to enable them to produce for the market. This means that market surveys of selected products should be made part of the training programme and advice must be given to expose enterprises to markets and make them responsive to the market. Professional marketing expertise is essential to identify marketing channels for the products made by women entrepreneurs. Industrial estates could also provide marketing outlets for the display and sale of products made by women.

The Centre for Women's Development Studies (CWDS) indicates that while the participation of women in the workforce is high and on the increase, the general status of women and their control over resources is not increasing at the same pace. According to CWDS's Kumud Sharma, "Women are usually allowed to engage in subsistence-level income generation. However, their ability to exercise control over the means of production, whether capital or land, gets restricted. This is the basis of gender inequalities. There has to be a greater effort by governments to sensitising policies to address these concerns."

Box 3.1 Some Common Features of Women Entrepreneurs in India

- Women with small families are more likely to become entrepreneurs.
- A majority of women entrepreneurs are married.
- Unmarried women face difficulties in getting financial support to launch their enterprises.
- Many women entrepreneurs belong to the low-income group.
- A large number of women with little or no education enter into business without undergoing any training. Most of these practising women entrepreneurs lack vocational education.
- Working capital is limited and profit margins are low.
- Women from the low-income group exercise greater freedom in making the decision to start business as compared to middle-class women who suffer from cultural constraints.
- Many women become entrepreneurs out of economic necessity.
- Women's hard work is generally responsible for the launch and sustainability of the business.
- Support systems do not effectively handle their important need for vision and confidence building and also for developing better business orientation and skills.
- Gender discrimination is encountered at every stage of business development.
- Women entrepreneurs are security oriented rather than growth oriented.
- Women prefer diversification to specialisation.
- Women prefer stabilisation of income and minimisation of risk over maximisation of income.
- Though the trend is changing, it is not uncommon to find enterprises owned by women but run by men.
- In the field of technology women have made a conscious decision to set up technology-based enterprises. Many have ventured into hi-tech areas such as manufacturing solar thermals, vacuum reactors, television boosters, air compressors, voltage stabilisers, and amplifiers as reflected in the data collected about women entrepreneurs. However, for most women their businesses remain micro-enterprises.

Visit www.bizwomen.com to check out thousands of women across the nation who excel in business.

Further, the UNDP has initiated a project, Science and Technology Applied for Rural Transformation (START), which operates through a network of technology development centres and resources centres. Each technology centre develops a network of small NGOs and women-dominated enterprises to implement the project to "fulfill twin objectives of productivity using the natural resources of the region and using technology as an enabling tool to enhance opportunities".

DISCUSSION FORUM

- Define the term "women entrepreneur".
- Illustrate with examples the role of women entrepreneurs in the economic development.

WOMEN ENTREPRENEURSHIP ENVIRONMENT

Women entrepreneurs operate through different spheres or environment. The overall context of women entrepreneurship development can be described in three different spheres—

Micro sphere
Meso sphere
Macro sphere

Moore, D. and E. Buttner (1997). *Women Entrepreneurs: Moving Beyond the Glass Ceiling*. Thousand Oaks, CA: Sage Publications.

Micro sphere: In many South Asian countries, women experience an unequal power relationship with men which is often reflected in persistent inter-family inequalities in the distribution of tasks. Male possessiveness and dominance also weakens a women's extra household bargaining power. This amounts to deprivation of influence at all levels. Gender relations also determine the ascription to men and women of different abilities, attitudes, desires, personality traits, behaviour and so on. These factors are seen to be important in women entrepreneurship development.

Organisations tend to militate against women and their economic empowerment, as most are based on patrilineal and paralegal relationships where women rarely have access to property succession rights from fathers or husbands; where a women moves and lives close to the husband's place of work; and where a woman is obliged to live close to the husband's family, even, if he has passed away. In the household where women are expected to carry out the household work, childcare and other tasks also restrict their economic opportunities. The requirement that women stay close to home inevitably limits their potential to operate in business, involving as it does travel, even over short distances, to procure supplies and meet customers. This is another strong reason for disempowerment of women entrepreneurship.

Gender differences occur in each of the spheres. The outcome of these gender differences ultimately is the disempowerment of women, which is reflected in small and cottage industries and at the micro level.

Meso sphere: There are a large number of organisations involved in providing support services to entrepreneurs. However, for a variety of reasons, many of the organisations tend to act as barriers when it comes to providing assistance to women entrepreneurs. In some cases this can be attributed to a lack of awareness about women's concerns and insensitivity towards gender issues. It is at the meso level that it is found that the lack of support for women entrepreneurs by many of the organisations which implement policies and operationalise programmes contribute greatly to their continuing disempowerment. The State might formulate gender progressive laws and policies, but the resistance offered by the bureaucracy, judiciary and other such official organisations, might hinder the implementation of these measures.

Macro sphere: The macro environment within which women entrepreneurs develop and grow comprises many interconnecting structures and dynamics, including laws and regulations, economy, international trade, including market liberalisation and globalisation, availability of finance and credit, labour market, human capital resources, technology, physical infrastructure and natural resources.

This environment has an impact on all enterprises, large and small, run by both women and men. There is much evidence to indicate that women are more at a disadvantage than men in relation to the opportunities and barriers arising from these structures and dynamics. It is partly because women's ability to bargain in the labour market, as in other arenas, is critically affected by predominant gender ideology and practices. Bargaining takes place over wages, conditions of work, and worker's rights. However women's bargaining power in the work place, as compared to that of men, is constrained not only by gender gaps in skills and education, but also by the employers' assumption regarding their abilities, work commitment, efficiency, and needs, which is further exacerbated by the unequal sharing of family responsibilities at the micro level. This contributes towards disempowerment of women.

Status of Women Entrepreneurs

Since the turn of the century, the status of women in India has been changing due to growing industrialisation and urbanisation, spatial mobility, and social legislation. Over the years, more and more of women are going in for higher education, technical and professional education. Their proportion in the labour force has also increased.

With the spread of education and awareness, women have shifted from the extended kitchen, handicrafts and traditional cottage industries to non-traditional higher levels of activities. During the 1970s, the decade of the International Women's Year, efforts to promote self-employment among women received greater attention from the government and private agencies. The new industrial policy of the Government of India has laid special emphasis on the need to conduct special entrepreneurial training programmes for women to enable them to start their own ventures.

Financial institutions and banks have also set up special cells to assist women entrepreneurs. The result has been the emergence of more women entrepreneurs on the economic scene in recent years, though the number is still quite low. Women's entrepreneurship, on the whole, still remains a much-neglected field.

While almost half the population of India comprises women, the businesses owned and operated by them constitute less than 5 per cent. This is a reflection of social, cultural as well as economic distortions in the decades of development. However, women's contribution and participation in economic activity and production of goods and services is much greater than statistics reveal, since much of it takes place in the informal sector and also in households.

As education has spread and compulsions for earning have grown, more and more women have started to go out of the homes and opt for employment—for a wage, or for themselves or for an entrepreneurial career.

DISCUSSION FORUM

- Discuss women entrepreneurs' environment in the Indian context.
- Explain the status of women entrepreneurs in India with examples.

CHALLENGES IN THE PATH OF WOMEN ENTREPRENEURSHIP

The problems and constraints experienced by women entrepreneurs have resulted in restricting the expansion of women entrepreneurship. The major barriers encountered by women entrepreneurs are as follows.

Lack of Confidence

Women generally lack confidence in their own capabilities. Having accepted a subordinate status for long, even at home, members of their family do not appear to have total confidence in their abilities and on their decision-making.

Society in general also lacks confidence in a women's strength, traits, and competence. This is quite apparent in the family's reluctance to finance a women's venture, bankers are reluctant to take risks on projects set up by women, and individuals are unwilling to stand guarantee for loans to a women.

Problems of Finance and Working Capital

Another problem faced by women entrepreneurs is lack of access to funds because they do not possess any tangible security and credit in the market. Since women do not enjoy right over property of any form, they have limited access over external sources of funds. Even the members of her family have little confidence in the capability of the women to run a business.

Women entrepreneurs face serious problem in obtaining working capital for financing day-to-day operations of the enterprises, including purchase of raw materials, meeting pay-rolls. The chronic shortage of working capital leaves women entrepreneurs extremely vulnerable to competition and other emergencies.

The complex and complicated procedure of bank loans, the delay in obtaining the loans and running about involved, deter many women from establishing enterprises.

Socio-cultural Barriers

A woman has to perform her family duties irrespective of her career as a working woman or an entrepreneur. In our society, more importance is given to educating the male child as compared to the female child. This results in lack of schooling and vocational training of women, their lack of attaining technical skills and thereby lack of awareness of opportunities available.

This adds to the constraints in establishing enterprises by women. Even the male labour force is generally seen as not preferring to work under a lady boss. Women entrepreneurs are not taken seriously enough by the labour force. All this hinders women entrepreneurship.

Production Problems

Production in a manufacturing enterprise involves coordination of a number of activities. While some of these activities are in the control of the entrepreneur, there are others over which she has little control. Improper coordination and delay in execution of any activity cause production problems in industry. The inability of women entrepreneurs to keep pace with the latest advances in technology and lack of technical know-how results in high cost of technology acquisition and machinery utilisation. These problems result in increasing the cost of production and adversely affecting the profitability of the unit.

Inefficient Marketing Arrangements

Heavy competition in the market, and their lack of mobility makes the women entrepreneurs dependent on middlemen. For marketing their products, women entrepreneurs are at the mercy of middleman who pocket a major chunk of profit. Further, women entrepreneurs also find it difficult to capture the market and make their products popular. They lack information on the changing market. In addition, women entrepreneurs, face difficulty in collection of payments.

STRATEGIES FOR THE DEVELOPMENT OF WOMEN ENTREPRENEURS

In small and medium enterprises due to limited sources, majority of the functions have to be performed by the owners themselves. In case of women entrepreneurs, the problems get compounded because certain functions have gender dimensions attached to them.

Domestic commitments and child-care support are the two main responsibilities of women. This, along with the still narrow outlook of society in accepting a woman as an entrepreneur makes her life more difficult. Some suggestions to meet these challenges and to encourage women entrepreneurship are given below.

- To overcome the resistance from husband and members of the family at the time of setting up of their venture, prospective women entrepreneurs are advised to maintain their cool and persistently convince them, without confronting them, regarding the benefits of setting up of an enterprise. The woman requires to have a strong will power under the circumstances. The inflow of money will eventually solve this problem.
- Shouldering the dual responsibilities of an entrepreneur and a homemaker can be effectively undertaken by a women entrepreneur through better time management. The members of the family can also be involved in the business, which will help in sharing the burden of entrepreneurial work. Moreover, the women entrepreneur must try to make her husband and children self-sufficient at home. With tact and diplomacy, she should solicit cooperation in running the enterprise from the family.
- A women can set up a home-based business. By operating her business from home, a women can better coordinate her household and business responsibilities.
- A women can start her business when her children are grown up enough to take care of their own small needs. This gives the women enough time enough to manage her enterprise.
- Women must acquire education and go through confidence-building training to get rid of the traditional feeling that they are inferior to men and are dependent on men.
- For marketing her products, a women entrepreneur must establish her credibility in terms of quality and competitiveness of product or service. She should acquire relevant techniques and skills to win customer's loyalty. E-commerce businesses will also help greatly in this regard. For publicity and advertisement, the women entrepreneur can work on alternatives like cable TV, pamphlets, leaflets, slides in cinema halls, banners at strategic locations, and so on.
- Effective and efficient use of information technology like the Internet can help in assimilating information about the variety, range, and quality of say competing products, and publicity and marketing of products and services.
- Workshop and seminars should be organised frequently for the officials of financial and support agencies and for women entrepreneurs to make their relations more cordial.
- Procedures for financial assistance by banks and government organisations must be simplified. Women inspectors, if available, should be asked to inspect women enterprises.
- It has been observed, that there is a tendency to project a higher value of sales, production, and profits in project reports to impress the bankers. Such a project profile is not appropriate from a financial management point of view. So, women entrepreneurs need to undertake training in various aspects of financial management to understand its finer implications.

- Since complicated and lengthy procedures make it difficult to acquire loans from government financial agencies and banks, it is suggested that women entrepreneurs search for non-formal sources of finance like private financiers, relatives, friends, and others.
- Banks and financial institutions must maintain a minimum target of loan to be disbursed to women entrepreneurs. Collateral security should be dispensed with in the case of women entrepreneurs because many women hardly have any property or other assets in their name to keep as guarantee. Margin money for projects to be undertaken by women entrepreneurs should not exceed 10 per cent. Subsidies should also be given to women entrepreneurs at the initial stage itself.
- Women entrepreneurs should acquire relevant training in technology and in details of their plant and machinery. They should be knowledgeable about the functioning of machines and processes. They should be more assertive with their employees. They should employ more women workers in their enterprises. They must undergo training in management skills to handle human resources as well as training in effective communication skills and practices and the legal aspects of running a business.
- Group entrepreneurship is a viable option for the weaker sections of the society and it helps woman to overcome their poverty. It empowers women and provides the necessary confidence for entrepreneurship. Women's organisations, women's cooperatives, and NGOs should be promoted to assist self-employment for poor women.

In the present scenario, due to modernisation, urbanisation, globalisation and development of education, with increasing awareness, women are now seeking gainful employment in several fields.

> Visit www.weon.com to find out the profiles of successful women entrepreneurs.

Women are entering into entrepreneurship even in the face of socio-cultural, economic, technical, financial, and managerial difficulties. Women entrepreneurship movement can gain momentum by providing encouragement, appropriate awareness, training, environment, and support. This would definitely enhance their socio-economic status, a pre-requisite for women's empowerment.

DISCUSSION FORUM

> Choose any successful woman entrepreneur in India, study her profile and discuss in small groups the challenges she has faced and find out how she has overcome the same.

EMPOWERMENT OF WOMEN BY ENTREPRENEURSHIP

In the 1980s, the Gender and Development approach (GAD), influenced by social feminism, post-modern and post-colonial theories, took into account the totality of women's lives, rejecting the public/private dichotomy which serves to devalue women's work at home. Focus on women's perspectives on development makes women the "subjects" rather than "objects" of development, change agents rather than welfare recipients. The GAD approach works to move women from the margin to the centre by allowing them to gain a sense of control over their lives (empowerment).

A woman is often described as the better half of man. But the actual condition of women in the world does not match up to this description. By and large, across the world, women have not achieved equality with men. Nearly 70 per cent of the world's 1.4 billion poor people are women. Of the world's 30 million refugees, 80 per cent are women and children. Of the world's 1 billion illiterate adults, two-thirds are women and of the 150 million children worldwide who are not in schools, two-thirds are girls.

In India, women constitute about 48 per cent of the population but their participation in economic activity is only 34 per cent. There is a continuing concentration of women in low-paid and low-status occupations, indicating that women are marginalised in the labour force. There is a common assumption that men are the breadwinners and that most of the female work is either done in leisure time or serves to procure supporting income for the family.

The major reason for this is the social prejudices that a women's world is required to be focused around the family and household. In addition to this, in the rural areas of India, there is a lack of education, health care facilities, and effective opportunities of employment for women. Such constraints and social traditions largely inhibit the emergence of the vast potential of women power, which remains the nation's greatest untapped resource.

India's first Prime Minister, Pandit Jawaharlal Nehru, said "When women move forward, the family moves, the village moves and the nation moves". Employment gives economic status to women. Economic status gives way to social status and thereby empowerment.

Entrepreneurial activities for women are clearly within the GAD framework. Development cannot be sustained unless the people for whom it is intended are at the centre of development activity. Emphasis on economic development without attention to quality of life has resulted in uneven economic growth but not social development. The goal of development is not merely to initiate a process of economic growth but also a process which will improve the lives of people. This implies improvement in the quality of lives of all segments of the population, particularly those groups which have been traditionally marginalised, such as women. Demographic variables are affected directly or indirectly by the status of women within the family and in society, in particular their education level and economic development.

It is believed that economic strength is the basis of social, political, and psychological power in the society. Thus, the lower status of women mostly stems from their low economic status and subsequent dependence and lack of decision-making power. Therefore, if women gain economic strength, they gain visibility and voice.

Among the various approaches, the empowerment approach in development programmes is considered to be the best. This approach modelled to "power" itself and gain control over the self, resources and decision-making power may be termed as empowerment. Ideally, the empowerment process should aim at "women finding time and space of their own" and should provide mechanisms for their active participation in the development process.

Women have a unique position in the economy. In India with an unfavourable woman-man ratio and strong patriarchal roots, entrepreneurship and access to funds have been difficult. Even in a developed country like the USA it is estimated that at the peak of venture capital funded projects back in 1997, women received as less as 2 per cent of institutional venture capital money. It is, therefore, immensely creditworthy that co-operatives have been created that have encouraged women to seek self-reliance and economic freedom. These are also associations like the Federation of Indian Women Entrepreneurs that seek to foster the economic empowerment of women by helping them to become successful entrepreneurs.

Facilitating their direct participation in income generation activities and decision-making capacity can make significant contributions towards women empowerment. This will enable women to take the initiative for their development into their own hands. Entrepreneurship can help women gain economic independence and improve their social status. Once they attain economic independence, women are automatically empowered. The development of women entrepreneurship enables society to understand and appreciate their abilities. It enhances their status and leads to integration of women in nation building and economic development. It provides the needed psychological satisfaction and imbues them with a deep sense of achievement to create their enhanced identity in society.

It is not always easy for women to find jobs that will be compatible with their family responsibilities and household chores. Thus many women are attracted by the idea of self-employment in enterprises adjoining their house premises, with flexible hours, which allows them to take care of both home and business. Small-scale enterprises represent an important means of income for women in developing countries. They provide employment and income to alleviate poverty.

GRASSROOT ENTREPRENEURSHIP THROUGH SELF-HELP GROUPS (SHGs)

A scheme for entrepreneurship is the Self-help Group (SHG), which enables the rural poor to earn their own livelihood besides participating in the process of development. The SHG scheme has been extensively used by voluntary agencies for a long time but it has been incorporated in the conventional development programmes only recently. As of now, there are 2,60,000 SHGs in India, of which 20,000 are in Madhya Pradesh alone.

SNAPSHOT

- Entrepreneurship can make significant contributions towards women empowerment by allowing her to participate in economic activity and decision-making process.
- A Self-help Group is a small economically homogeneous and affinity group of rural/urban poor, voluntarily formed to save and mutually agree to contribute to a common fund to be lent to its members as per group decisions.

A typical rural women's SHG is a good example of capacity building for prospective entrepreneurs. Its aims include enabling members with no educational or industrial or entrepreneurial background to become self-dependent and self-reliant, developing and enhancing the decision-making capacity of members, instilling in members the strength and confidence to solve their problems, and providing poor people a forum where they can learn about collectively mobilising and managing money and matters.

A Self-help Group is a small, economically homogeneous and significant group of rural/urban poor, voluntarily formed to save and mutually agreed to contribute to a common fund to be lent to its members as per group decisions.

In a SHG the women are organised into small groups. The group formation helps to generate peer group support and solidarity. The group meets regularly, initially for awareness generation. After selecting a specific project, some of the members of the group leave for training. Regular and timely attendance at meetings becomes very important at this stage and the quantum of weekly saving is decided upon. Each member is expected to contribute and participate. The initial contribution is made either by an NGO, or a funding agency or the government. Owing to the credit programme, the women have access to money. They decide on their own which issues are of concern. Some women may start a home-based business from the loan availed.

SHGs are directly helping women increase their income by providing loans for productive enterprises. There are other indirect ways in which SHGs can help increase income. The interest rate of moneylenders is avoided and women are equipped to face possible loss of assets like cattle and goats through insurance. However, self-help groups cannot be considered as a credit or savings group alone. Mobilisation and organisation of women into groups is equally important because these groups form the basis for solidarity, strength, and collective action. Organising such groups needs to go further in addressing not only economic but also other social and political issues. Such groups were first organised in many places as a savings group to overcome the lack of access to credit for women for entrepreneurial activities.

To start even a small rural business, one needs at least Rs 25,000. According to studies conducted by the Entrepreneurship Development Institute of India, Ahmedabad, the average capital needed for one person to invest in a small business is about Rs 1 lakh. Moreover, the chances of making a business a success are under all odds. Uneducated rural women belonging to the lower strata find it almost impossible to initiate any such entrepreneurial work without adequate capital, proper training, and on-site daily support. Such support is made available to women SHG members through various schemes.

It needs to be mentioned that the SHG's involvement in self-employment activities certainly contributes to group entrepreneurship at the grassroots level. Group entrepreneurship offers an opportunity for instilling basic managerial skills and values amongst the rural poor. It would not only help the poor but the society as a whole. Hence, group entrepreneurship through SHGs is an investment in the poor and an engine of development, and an idea, which could be given a serious thought in future. Normally, credit is brought to the poor where the delivery system is designed to disburse loans in small amounts with a repayment system that is appropriate, and where collateral and paper requirements are kept to the minimum. Usually the payments are collected at places where women congregate and work. These credits are combined with supporting services, a viable market. extension services, and so on. Here, the role of NGOs is vital and a brief review of the credit-based NGO activities suggests that they can be classified into four categories.

- NGOs which act as financial intermediaries between government schemes and poor
- NGOs which lend directly to the poor
- NGOs which promote self-help thrift and savings groups
- Non-government cooperative banks for the poor.

How do SHGs Work?

1. **The group addresses a felt need and a common interest:** When people share a common problem that can be addressed by group action, they are more likely to mobilise themselves and work with support agencies to change the situation than if the problem applies to only a few members. Social cohesion tends to break down as groups grow or spread over large areas and monitoring and behaviour of individuals becomes more difficult. For this reason, as groups expand, they either create subgroups or formalise regulations and delegate decision making to smaller working groups.

2. **The benefits of working together outweigh the costs:** The benefits may be economic (cash savings, increased production, income and time savings), sccial capital formation (increased ability to collectively solve problems), increased individual capacity (knowledge and skills), psychological (sense of belonging and confidence), or political (greater access to authority, greater authority, and reduced conflict).

3. **The group is embedded in the local social organisation:** Community organisations are most successful when based on existing relationships and groupings or when members share a common identity such as kinship, gender, age, caste, or livelihood.

4. **The group has the capability, leadership, knowledge and skills to manage the tasks:** As noted above, special attention needs to be given to ensuring groups have the necessary capacities for the tasks at hand. Those in leadership positions need to be respected and honest in their dealings. In some cases, safeguards may need to be put in place to ensure that these leaders are accountable to the group's members.

5. **The group owns and enforces its rules and regulations** Internalise rules and regulations that are known to its members characterise all successful groups and associations. Group members should be able to participate in determining the rules and the enforcement mechanisms.

The SHG System

A Self-help Group is a collection of 20 members who form a group, facilitated by a non-governmental organisation (NGO) for its formation or by the Micro Finance Organisation (MFO) or a bank, or it may evolve from a traditional Rotating Savings and Credit Group (ROSCG) or other locally initiated grouping. The process of formal linkage to an MFO or a bank usually goes through the following stages, which takes a few months to years.

- The SHG members decide to make regular savings contribution. These may be kept by their elected head, in cash or in kind or they may be banked.
- The members start to borrow individually from the SHG, for various purposes on terms and interests rates decided by the group itself.
- The SHG members open a savings account in the group's name with the MFO or bank for funds that are not needed by members or in order to qualify for a loan from the bank.
- The MFO or bank gives a loan to the SHG in the name of the group, that is then used by the group to supplement its own funds for lending to its members.
- Married women between the ages of 25 and 50, to ensure a permanent address and thereby the security of the loans.
- Recruitment of members from among themselves so that they are mutually accountable and understand the cooperative nature of the savings/loan plans. These voluntary SHGs are formed of women of different faiths and communities.
- No alignment to any political parties or programmes. Politics is not allowed to be discussed at their bi-monthly meetings.
- Readiness to be initiated into a 12- month small mutual savings plan, which works like an orientation for a bigger MFI/ICICI Bank micro-credit programme to follow. By this time members of SHG have demonstrated a proven ability to save funds and pay interest.

Various SHG Activities to Promote Entrepreneurship

Key, Thelma (2003). "Empowering Women through Self-help Micro-credit Programmes", *Bulletin on Asia-Pacific Perspectives.*

To set up micro enterprises: Micro enterprises are very small units, manufacturing or producing finished or semi-finished products or goods. These activities may include Desk Top Publishing, making greeting cards, book manufacturing, handicrafts, Mono bloc units, shops, and so on.

- The other activities carried out with the assisted funds are improvised mat weaving, handlooms, fibre rope making, poultry farm, dairy farming, gem cutting and polishing, and so on.

DISCUSSION FORUM

- **Discuss with suitable examples, how entrepreneurship will enable the empowerment of women.**
- **Explain, how Self-help Groups can develop entrepreneurship at the grassroot level.**

INSTITUTIONS SUPPORTING WOMEN ENTREPRENEURSHIP IN INDIA

Consortium of Women Entrepreneurs of India (CWEI)

In the context of the opening up of the economy and the need for upgradation of technology, the Consortium of Women Entrepreneurs of India started in the year 2001 provides a common platform to help women entrepreneurs find innovative techniques of production, marketing, and finance. CWEI consists of NGOs, voluntary organisations, self-help groups, institutions, and individual enterprises, both from rural and urban areas, which collectively support and benefit from the activities taken up by the consortium. CWEI takes up integrated activity linked with product development and manpower training. It also acts as an intermediary between Indian entrepreneurs and overseas agencies for marketing and exports.

SNAPSHOT

Institutions supporting women entrepreneurship in India are:

- Consortium of Women Entrepreneurs of India (CWEI),
- Federation of Indian Women Entrepreneurs (FIWE),
- Federation of Ladies' Organisation (FLO), Women's India Trust (WIT),
- Central Bank of India Credit Schemes,
- National Bank for Agriculture and Rural Development (NABARD),
- State Government Schemes for Development of Women and Children in Rural Areas (DWCRA),
- Small Industries Development Bank of India (SIDBI),
- Self-Employment Women Association (SEWA),
- Association of Women Entrepreneurs of Karnataka (AWAKE).

Federation of Indian Women Entrepreneurs (FIWE)

The FIWE was started in 1993 following decisions taken at the 4th International Conference of Women Entrepreneurs, held in December, at Hyderabad. Its main function was to establish networking and to provide a package of services to the women entrepreneurs' associations in India. Associations of women entrepreneurs in different States and districts are affiliated to FIWE so that they can have networking. Individual women entrepreneurs are also eligible for general membership.

The main objectives of FIWE are as follows.

- To provide training facilities in export marketing and management, domestic marketing, quality control, and standardisation

- To facilitate an enterprise to network within the country and abroad
- To provide greater access to latest technologies, know-how, and help in the expansion of small-and medium-sized enterprises run by women
- 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
- To effectively articulate the problems and constraints faced by women entrepreneurs on identifying business opportunities, management of enterprise at various stages
- To enhance access to term loans and working capital
- Assist in the identification of investment opportunities.

Federation of Ladies' Organisation (FLO)

The Federation of Ladies' Organisation (FLO) is the women's wing of the Federation of Indian Chambers of Commerce & Industry (FICCI). FLO was formed in 1983 as a national level forum for women with the basic objective of "women empowerment".

The primary objective of FLO is to promote entrepreneurship and professional excellence in women. FLO acts as catalyst for the social and economic advancement of women and society at large. FLO endeavours to make women aware of their strengths through its educational and vocational training programmes, talks, seminars, panel discussions, and workshops on a wide range of subjects like Information Technology, taxation, insurance, venture capital, travel and tourism, exports, gems and jewellery, stock market operations, accountancy, marketing, mutual funds, investment planning, entrepreneur development programmes, and women-related issues like women's achievers and women's empowerment.

FLO works at three levels. At the basic level, it holds entrepreneur development programmes for women at the low or zero income levels, working with them in advising how to start a business and following it through with some help in vocational training. At the middle level, it holds seminars and workshops for women who run small-scale businesses on computerisation and financial management. At the senior level, FLO has advanced programmes for women at the helm in areas such as marketing and finance.

Women's India Trust (WIT)

When Kamila Tyabji launched WIT in 1968, little did she realise that it would grow into a large organisation with two shops in Mumbai and a training and production centre known as the Kamila Tyabji WIT Centre at Panvel, 40 km from Mumbai. Encouraged by the success of WIT in Mumbai, the Kamila Trust, UK, was set up in the early 1990s with the aim of selling in England items produced by the WIT family of women in India. At first, friends held "home sales" in London and Yorkshire, and then in 1994 the Kamila Trust opened its own shop called KASHI, in London.

WIT has achieved a substantial annual turnover of exports to the UK, Europe, Australia from 1995 and more recently to Germany. WIT Foods has procured an order for 2,000 bottles of tomato and raisin chutney from an alternative trading organisation, El Puente, in Germany.

Hundreds of women have benefited from WIT not only financially but also in their levels of self-assurance, self-confidence, and self-reliance. WIT has provided training and employment opportunities to needy and unskilled women of all communities in and around Mumbai. Beginning with stitching sari petticoats, WIT has helped many such women to develop sewing skills and enabled them to earn a regular income, which has changed their lives and that of their families.

With the establishment of the training and production centre at Panvel, WIT was able to launch an education programme in nursing and kindergarten training, which has grown to accept 35–40 students a year. Other courses are conducted too, including those in block printing. screen printing, toy making and catering. The products these women make are marketed through WIT's own shops in Mumbai as well as outlets throughout India and abroad.

WIT's next step is to embark on computer training and education.

Cent Kalyani of Central Bank of India Credit Schemes

Cent Kalyani has been specially introduced to offer financial assistance to woman entrepreneurs for economic pursuits in industry, agricultural and allied activities, business or profession. Central Bank, with a network of branches spread throughout the country, welcomes women entrepreneurs to avail financial assistance for pursuing vocations of their choice.

Credit facilities are available for women entrepreneurs under the following heads.

(1) Small business
(2) Professional and self-employed
(3) Retail trade
(4) Village and cottage/tiny industries
(5) Small-scale industries
(6) Agriculture and allied activities
(7) Government-sponsored programmes

1. **Small business:** For entrepreneurs who intend to provide service (not professional service) such as setting up a small lunch canteen, mobile restaurant, circulating library, and so on.
2. **Professional and self-employed:** For entrepreneurs who are specially qualified/skilled and experienced like doctors, chartered accountants, engineers, or trained in art or craft and so on.
3. **Retail trade:** For entrepreneurs who intend to engage in retail trading of various commodities.
4. **Village and cottage/tiny industries:** For entrepreneurs who are engaged in manufacturing, processing, preservation, and services such as handloom weaving, handicraft, food processing, garment manufacturing in villages and small towns with a population not exceeding 50,000 and utilising locally available resources/skills.

5. **Small-scale industries:** For entrepreneurs to start a unit engaged in manufacture, processing, or preservation of goods.
6. **Agriculture and allied activities:** For women entrepreneurs who are engaged/intend to engage in agricultural and allied activities, such as raising of crops, floriculture, fisheries, bee-keeping, nursery, sericulture, and so on and also trading in agricultural inputs.
7. **Government-sponsored programmes:** Apart from the above schemes, women entrepreneurs are also financed under the various government-sponsored programmes where capital subsidies are available.

Other terms and conditions for the above facilities under Cent Kalyani, that is, quantum of loan, margin, interest, security, repayment, documentation, and so on are as applicable under their respective schemes.

National Bank for Agriculture and Rural Development (NABARD)

The National Bank for Agriculture and Rural Development "seeks to remove the barriers of credit to women". It aims to treat women as risk-free, bankable clients, provide linkages along with credit, identify appropriate economic activities for women and promote women Self-help Groups and link them with the formal banking system. NABARD has evolved exclusive schemes for women such as Assistance to Rural Women in Non-farm Development (ARWIND), assistance for Marketing of Non-farm Products of Rural Women (MAHIMA) and support in the form of grant assistance for setting up "Women Development Cells" by RRBs/ Cooperative Banks. Arvind has both credit and grant components. It is envisaged that women groups organised or sponsored by a suitable agency could avail of bank credit normally not exceeding Rs 50,000 per women member for an own account activity or group activity, with 100 per cent re-finance support from NABARD. MAHIMA seeks to create a niche or pro-women market and assists in credit by way of 100 per cent re-finance up to Rs 10 lakh.

State Government Schemes for Development of Women and Children in Rural Areas (DWCRA)

The Development of Women and Children in Rural Areas (DWCRA) scheme, was launched in 1982–83. It was inaugurated an era for systematically organising women in groups for providing them opportunities of self-employment on a sustained basis. Several thousands of rural women from the length and breadth of the country participated in this programme and they have taken up a number of trades under the DWCRA banner.

The main objective of the scheme is to improve the economic, health, educational, and social status of rural women by providing them assistance and creating employment opportunities. The specific objectives of the scheme are listed below.

- To help and promote self-employment among rural women who are below the poverty line by providing skill training in vocations which are acceptable to the beneficiaries, by encouraging productivity in their existing vocations, and by introducing new activities hitherto not undertaken

- To organise the beneficiaries in groups, activity-wise, and promote economic and social self-reliance
- To generate income for the rural poor by creating avenues for production of goods and services
- To organise production-enhancing programmes in rural areas
- To provide for the care of the children of working women by providing an improved environment, care, and food by establishing crèche/*balwadis*.

The programme called for information of groups of 10–15 women who could collectively engage in an activity. One women amongst the members functions as the group organiser and helps in the choice of activity, procurement of raw materials, marketing of products, and so on. A revolving fund of Rs 25,000 was made available to each group for credit and administrative needs.

The District Rural Development Agency (DRDA) implements the programme at the district level. DWCRA is the only programme of its kind which aims at empowering rural women by inculcating entrepreneurial skills in them. It seeks to encourage collective action in the form of group activities, which are known to work better than individual efforts. Furthermore, by encouraging the habit of thrift and credit, it aims at making poor women self-reliant through assistance from the government in the form of revolving fund and seeks to integrate women by providing opportunities for self-employment.

The following programmes and schemes have been under taken for the development of women and childcare in rural areas by various State governments.

(a) **Swasakthi scheme:** Under this scheme, financial assistance is provided to the women to train in vocations for self-employment. During 2001–02, Rs 40 lakh was provided to 40 NGOs in the State.

(b) **Manebelaku:** This is an income-generating scheme specially designed for women. Under this scheme, loans are provided to the women entrepreneurs from banks and financial institutions. During 2001–02, about Rs 100 lakh was provided as subsidy to 200 women, whose family income is not more than the IRDP income limit in rural areas.

(c) **Women economic empowerment (Mahila arthika swavalambhan yojana):** Under this scheme, self-help groups are arranged by thrift and credit activities, to provide training in market-oriented skills and linkages to financial institutions for income-generating activities. During 2001–02, Rs 50 lakh was provided to WDC for economic empowerment of women through 400 self-help groups of Karnataka.

(d) **Training programme for the women entrepreneurs through WDC:** About Rs 10 lakh have been provided for creating awareness on entrepreneurship and development. Under this scheme, about 9,200 women benefited in the State during 2001–02.

(e) **Marketing assistance to women entrepreneurs (WDC):** About Rs 10 lakh was provided to conduct 54 exhibitions through NGOs in important centres on a regular basis to bring women entrepreneurs and potential customers together during 2001–02 in the States. A State resource centre for women was also set up during the same period.

(f) **Sree Shakti:** This massive scheme started in 2000–01, aims at empowering rural women through the formation of self-help groups with the active involvement of NGOs organising about 20 lakh rural women into 1 lakh SHGs, extending developmental services of various segments to these groups. The scheme provides banking linkages for their economic stability with a fund of about Rs 5,000 per group.

It is now evident that the Central and State governments started and implemented different strategies, policies, and programmes all over the country. Yet, many of the women entrepreneurs faced several problems, especially in Hyderabad-Karnataka border region. Hence, it is necessary to study the experiences of such women entrepreneurs to find local resources of the district.

Small Industries Development Bank of India (SIDBI)

SIDBI is assisting the entire spectrum of the SSI sector including the tiny, village and cottage industries through suitable schemes tailored to meet the requirements of setting up of new projects, expansion, diversification, modernisation, and rehabilitation of existing units. SIDBI has two women-specific schemes.

Under **Mahila Vikas Nidhi (MVN)**, well-managed NGOs with a good track record and linkages with financial institutions are eligible to borrow. It is a specially designed fund for economic development of women, providing them avenues for training and employment opportunities. A judicious mix of loan and grant, the basic activity involves setting up of training-cum-production centres. The assistance is basically catalytic and is only the really well-run NGOs that can secure grants. Assistance may be in the form of loans. Repayment is normally within five years and the initial moratorium is of one or one and a half year.

The **Mahila Udhyam Nidhi** scheme is for enterprising women entrepreneurs to set up new projects in the tiny and small-scale sector and for the rehabilitation of viable sick SSI units. This scheme serves to eliminate the gap in equity. The scheme is operated through SFCs' twin-function IDCs/scheduled commercial banks/ scheduled urban cooperative banks. The cost of the project should not exceed Rs 10 lakh.

Self-Employed Women Association (SEWA)

SEWA is a trade union registered in 1972. It is an organisation of poor, self-employed women workers. These are women who earn a living through their own labour or small businesses. They do not obtain regular salaried employment with welfare benefits like workers in the organised sector. They are the unprotected labour force of the country. Constituting 93 per cent of the labour force, these are workers of the unorganised sector. Of the female labour force in India, more than 94 per cent is in the unorganised sector. However their work is not counted and hence remains invisible. In fact, women workers themselves remain uncounted, undercounted, and invisible.

SEWA's main goals are to organise women workers for full employment. Full employment means employment whereby workers obtain work security, income security, food security, and social security (at least health care, child care and shelter). SEWA organises women to ensure that every family obtains full employment.

SEWA organises 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. The struggle is against the many constraints and limitations imposed on them by society and the economy, while development activities strengthen women's bargaining power and offer them new alternatives. Practically, the strategy is carried out through the joint action of union and cooperatives. Gandhian thinking is the guiding force for SEWA's poor, self-employed members in organising for social change. SEWA follows the principles of *satya* (truth), *ahimsa* (non-violence), *sarvadharma* (integrating all faiths, all people) and propagation of local employment and self-reliance through *Khadi*.

SEWA is both an organisation and a movement. The SEWA movement is a confluence of three movements: labour movement, cooperative movement, and women's movement. It is also a movement of self-employed workers—their own, homegrown movement with women as leaders. Through their own movement women become strong and visible. Their tremendous economic and social contributions gain recognition.

There is much to be done in terms of strengthening women's leadership, their confidence, their bargaining power within and outside their homes and their representation in policy-making and decision-making. It is their issues, their priorities and needs which should guide and mould the development process in the country. Towards this end, SEWA has been supporting its members in capacity building and in developing their own economic organisations.

SEWA members are workers who have no fixed employee-employer relationship and depend on their own labour for survival. They are poor, illiterate, and vulnerable. They barely have any assets or working capital. But they are economically active, contributing very significantly to the economy and society with their labour. In fact, 64 per cent of the GDP is accounted for by the self-employed women of the country.

There are three types of self-employed women workers.

(1) Hawkers, vendors, and small businesswomen like vendors of vegetables, fruit, fish, eggs and other food items, household goods, and clothes

(2) Home-based workers like weavers, potters, *bidi* and *agarbatti* workers, *papad* rollers, readymade garment workers, women who process agricultural products and artisans

(3) Manual labourers and service providers like agricultural labourers, construction workers, contract labourers, handcart pullers, head–loaders, domestic workers, and laundry workers.

Association of Women Entrepreneurs of Karnataka (AWAKE)

AWAKE was established in 1983 and has been recognised worldwide. It is an affiliate of Women's World Banking, New York. It is one of India's premier institutions for women totally devoted to entrepreneurship development.

The vision of AWAKE is given below.

- To develop suitable membership programmes to increase member base and also to encourage members to be more active
- To work as a team towards the shared objective of reaching a greater number of women through its programmes
- To influence policy makers
- To provide need-based quality programmes to its clients

The mission of AWAKE can be broadly described as "empowering women through entrepreneurship development to improve their economic condition". AWAKE'S mission also includes the following.

- To promote entrepreneurship among women and thereby empower them to join the economic mainstream
- To enhance the status of women in society by creating a culture of entrepreneurship amongst women in both rural and urban areas
- To develop successful models of entrepreneurship for emulation worldwide.

The following are the values that AWAKE seeks to set.

- Volunteerism
- Transparency
- Commitment
- Integrity in programmes and budgeting
- Learning and sharing from others, network and exposure
- Personal growth enhanced through shared learning
- Pride and value in AWAKE's representation
- Participatory environment.

AWAKE's target group comprise the following.

- All women entrepreneurs seeking guidance to grow
- AWAKE's clientele consists of 90 per cent women, of whom 80 per cent are rural, of these 50 per cent belong to low income groups
- NGOs engaged in income generation activities and entrepreneurship development.

AWAKE's activities are executed by the following four modules.

1. Stimulus

Business counselling: Business counseling is an entry point to AWAKE. Aspiring women come to AWAKE for support to convert their ideas into a profitable business enterprise. One-to-one business counselling is done voluntarily by existing member entrepreneurs. Besides sharing their own practical experiences, the voluntary counsellors undergo training in professional counselling.

Entrepreneurship awareness programme: Through this activity AWAKE informs its clients of the services it offers and motivates them to take up entrepreneurship. It is an awareness programme, where member women entrepreneurs motivate a large group of women to take up entrepreneurship. There is discussion on business ideas, schemes, and incentives offered by different agencies as opportunities in business. The programme is conducted often in interior rural areas to reach out to a larger number of women.

2. Start up

Entrepreneurship Development Programme: AWAKE conducts general Entrepreneurship Development Programmes (EDPs) normally after every awareness programme or at periodic intervals based on the need for one. EDPs are conducted by AWAKE's core training faculty, along with a programme coordinator and member entrepreneurs who act as role models. The features of EDPs are as follows.

- Start-up enterprise training
- Unique training module developed and prastied by AWAKE
- Capacity building and preparation of client for business development
- Sessions on empowerment, business, exposure visits, and interaction with successful entrepreneurs, government officials, and support agencies
- Empowerment session including fear management, SWOT Analysis, confidence building, problem-solving techniques, and so on
- Business session that includes selection of project, business plan, schemes and incentives, accessing resources, banking, production and quality control, marketing, book keeping and accounting, planning for growth and expansion
- Networking with support agencies and provision of escort services to clients.
- Follow-up programme for EDP participants
- Support by Karnataka State Women Development Corporation. (KSWDC), SIDBI, and NABARD
- Period of the training ranging from 10 days to 6 weeks
- Methods including lectures, group discussions, and specially designed location-specific business games and case studies.

Skill Development Programmes: AWAKE conducts need-based skill development programmes in specific sectors, like food, floriculture, vermiculture, pottery, handicrafts, eco-friendly products, and so on for EDP beneficiaries and other counsellors. Resource persons with expertise in the specific sectors conduct the training.

Trainers' Training Programme (TTP): AWAKE owes the success of its EDPs to its holistic approach in including all developmental agencies, both government and NGOs, in its training programmes.

- Conducts sensitisation programmes for bankers and developmental agencies focusing on gender bias, gender sensitivity, and the need for pro-active support in promoting entrepreneurship development among women.
- To have a multiplier effect and to reach out to greater number of women entrepreneurs.

- TTP is conducted for NGOs and other agencies involved in enterprise development.
- Tools for training developed by AWAKE will be practised in TTP.
- AWAKE's training team will support the agency in the field while conducting EDP by the other agencies as a follow up of TTP.

SWASHAKTI, a project for empowerment of women, sponsored by World Bank and International Fund for Agricultural Development (IFAD) and implemented by Karnataka State Women Development Corporation has identified AWAKE as a training agency for training the NGOs and SHGs.

Business Incubator of AWAKE: AWAKE's Business Incubator, the first of its kind in Asia, supports development of women-owned enterprises in food processing. This facility was set up in 1992, with financial assistance from SIDBI, building from the Directorate of Industries & Commerce, Government of Karnataka, Centre for Technology Development (CTD), and plant and machinery from USAID.

The following are the features of the Business Incubator for food processing.

- Clean, hygienic, and scientifically designed premises
- Equipped with facilities for food processing, packaging and labelling
- Women entrepreneurs can utilise facility for a period of one year on payment of a one-time fee by signing a Memorandum of Understanding
- Facility available for shorter periods, daily usage, or for sampling
- New equipment for baking, vacuum sealing, cold storage, and test lab added
- Services of a food technologist, training in food processing, development of food products, standardisation, and management of food industry being provided
- Products that can be manufactured at AWAKE's Business Incubator are fruit- and vegetable-based products, spice and spice blends, cereal- and pulses-based products, dried and fried snacks, bakery products, and so on
- Consultancy offered in development of packaging, and so on
- A Business Incubator Manual to support replication of such business incubators in food
- Management Development Programmes (MDP's) now are being conducted in rural areas in specific sectors like food, handicrafts, garments, and so on where experts deal in new product development, product display, and marketing, and similar subjects.

3. Sustenance

The marketing centre organises periodic exhibitions and sale of its members' products either sector-wise or at product shows, at a subsidised cost for its members. These exhibitions and sales are often organised at attractive and accessible locations, especially on the eve of the main local festivals. AWAKE's marketing strategies are given below.

- Facilitates joint participation in important national and international trade fairs and buyer-seller meets

- Organises exhibitions, buyer-seller meets, and products courts, export orientation in order to create linkages with prospective buyers
- Plans to establish market outlets for products manufactured by women entrepreneurs
- Facilitates "Match making Processes" through the concept of virtual trade missions.

Management Development Programme: It is an integral part of AWAKE's activities. The objective of the MDP is to enhance an entrepreneur's skills and technology upgradation in order to support growth of their business enterprise. The following are the features of MDP.

- Management programmes on various topics such as finance, tax planning, computerisation, IT, packaging and marketing for women entrepreneurs
- Business savvy series and growth programmes for entrepreneurs, motivating them to grow further in their business.

4. Support

Membership Services Programme: Started in 1983 with 7 members, AWAKE has more than 850 members who are practising entrepreneurs. The Membership committee supports the needs of these members. The followering are the services provided to members.

- Annual awards, theme based, in appreciation of the spirit of enterprise, given to women entrepreneurs each year on AWAKE's anniversary.
- State conference with seminar, workshop and exhibition held once in four years for women to update and discuss relevant issues and policies.
- Networking with national and international agencies, NGOs and like-minded institutions for furthering the interests of members and to actively participate in policy advocacy.
- Regular interactions among members for fellowship and to create a platform for exchange of idea and for updating business information
- Conducts competitions in cookery, music, and flower arrangement among the members and their family.

Research and Resource Center (RRC): RRC is the backbone of AWAKE, documenting all its various activities. It has a computerised Data Bank containing technologies, information on business startup, project profiles, reports, and so on. RRC also provides the following services.

- Publishes the AWAKE bi-monthly newsletter, *AWAKENER*
- Undertakes research studies and data collection and analysis for various organisations such as ILO, FES, DIC, Ministry of Food, Ministry for Rural Development, GOI, HIVOS, NABARD, ADB, SIDBI, and others
- Brought out the first business directory of women entrepreneurs – CD and print version—which includes member profiles, a profile of AWAKE, government policies, and organisations supporting entrepreneurship development

Visit www.ciionline.org to learn about the Institutions supporting women entrepreneurs in India.

- Has published many books—Kannada translation of Trainers' Training Manual *(Neravigera Kaipidi),* a brief guideline to WTO for small businesses (*Sanna Udyamigaligagi Vishwavyapara Samsthaya Kaipidi*), *Policy Practice Gap, Business Incubator Manual, Scaling New Heights—The Millennium Women* which are case studies of successful women entrepreneurs, among others
- Introduces new concepts and conducts programmes to support policy changes and introduces entrepreneurs to new tools for the growth of industry.
- Has fully equipped documentation facilities.

Credit Referral

- AWAKE's role in micro credit is need-based training, bank linkages for micro finance institutions and interim guarantee funds.
- AWAKE is a member of Sadhan, an organisation whose members are MFIs, training organisations and individual members.
- Women entrepreneurs whose income level is less than Rs 25,000 per annum can approach AWAKE for credit referral services.
- Contributing to the global objective of reaching out to 100 million poor families by 2005.
- Supports capacity building of SHGs and their income-generation activities through training.

DISCUSSION FORUM

- **Explain the institutional framework supporting women entrepreneurship in India.**
- **Discuss in detail the role of one of the above institutions with examples.**

WOMEN ENTREPRENEURS IN INDIA

Vidya Chhabria took over the reigns of the Jumbo group in difficult circumstances, when her husband and founder of the group, Manu Chhabria, passed away unexpectedly (2002). Two years after his death, **Vidya Chhabria**, Chairperson of the \$2-billion, 28-company Jumbo group which has operations in 25 countries including a significant portion in India, has managed to grow and stabilise the operations of the group. Recognition of her work has also come from *Fortune* magazine (2004), which named one of the 50 most powerful women in international business. Her special focus of managing has been on people.

Anu Aga, Chairman of the Rs 770 crore Thermax group, has charted out a bold and pioneering path in business and outside. She took over the stewardship of the group in 1996 after her husband passed away. In recent years, she has taken bold steps in governance issues within the group with a stronger focus on professionalisation and decentralisation.

Ranjana Kumar, presently the Chairperson & Managing Director of Indian Bank has been appointed as Chairperson of National Bank for Agriculture & Rural Development. (The first woman to head a nationalised bank in India, Mrs Kumar has a rich banking experience of more than 37 years in India and abroad). Under her stewardship the Indian Bank had turned around successfully, achieving all the targets set under the Restructuring Plan and Business India. She has come to be known as the iron lady in the public sector banking circles. Starting her career as a Probationary Officer in Bank of India in 1966, she has held several key positions in the field of Commercial Banking, International Banking, Personnel, and Training etc. She had served as Regional Manager and Zonal Manager of Bank of India

Sulajja Firodia Motwani, Joint Managing Director, Kinetic Engineering has played a hands-on role in sales, finance and product development. She has also played an important role in the company's forays into motorcycles (after it snapped ties with Honda in scooters and mopeds), auto designing and components. She is now strengthening Kinetic's dealer network.

Amrita Patel, Chairperson, National Dairy Development Board, (NDDB), has been taking the milk cooperative movement in new directions. Today, she has a vision of linking up cooperatives in different States in such a way that milk-deficient States get milk from the surplus States. She is also vocal about the upgradation of wasteland, which could be used to grow fodder.

Priya Paul, President of the Park Hotels and a director of the Apeejay Surrendrs Group, is among the few "born to sweet delight". Today she is a part of the hospitality industry where sweetness counts. Despite her tough job, this elegant lady exudes complete calm. Armed with a bachelor's degree in economics from Wellesley College, USA, she started her career as the Marketing Manager of the Park in 1988. She soon climbed the ladder, being promoted to Acting General Manager and was finally give the chair of Director, Apeejay Surrendra Group, and President, The Park, in 1990.

Elsie Nanji, Vice-Chairperson and Chief Creative Officer of Ambience D'Arcy Advertising, says her catch phrase is "Survival of the fittest". She was the first Indian lady to be invited to the Asia-Pacific Ad Fest, held in Thailand in 1999 and to Clio's, which was held in Aspen, Colorado, in April 2002. She was invited as a part of the jury. Armed with a degree in commercial arts (from Sophia Polytechnic, Mumbai), Elsie Nanji stepped into the advertising world for almost 25 years (2004). She is the brain behind the popular Thums Up ad campaign "Taste the thunder" which has won a string of awards.

Swati Piramal, Director and Chief Scientific Officer, Nicholas Piramal India, was a practising doctor for 10 years in Mumbai's KEM Hospital before joining the Piramal group. She started the biotechnology division in Piramal group with the group's first biotech drug, Neupogen, in 1993. Today, one area in which she is keen on is genome development.

Rajshree Pathy, CMD of the Coimbatore-based Rajshree group of companies, is one of the few women CEOs in the Indian family business. Starting primarily in the textile sector, the Rajshree group has diversified in a whole host of areas, from food and agriculture to financial services, cotton yarn, real estate, automotive, and travel. She took on the reins of the group after her father passed away. Today, she has got into backward and forward integration by growing sugarcane in Tamil Nadu and producing electricity through the byproducts.

Shanti Ekambaram, Executive Director of Kotak Mahindra Capital Company, has been on a fast-growth track, rising quickly from being an analyst to the top echelons. She has been involved in a number of major deals including the acquisition of the Good Knight by the Godrej group and the book-building deal of Hughes Software. Within the group, she has had all-round exposure work-ing on different desks including FII and dom-estic capital markets.

Vinita Jain, CMD, IRL Marketing Pvt Ltd., is a low-profile person who lets her brand, Biotique, speak for her. She has put her education and passion together. With degrees in biochemistry and management, Vinita Jain has come up with skin and hair care formulations developed from ayurveda. Today, Biotique products occupy shelves not only in premium beauty shops in India, but 65 per cent of the total production is actually exported.

Anuradha Desai, CMD of the Rs 1000-crore Pune-based Venkateshwara Hatcheries Group, has taken the group to significant growth after she stepped into her father B.V. Rao's shoes on his demise. Today, the group has a presence in the entire value chain: eggs, broilers, breeding, medicines, vaccines, equipment for hatchery and poultry, poultry feed, and technical consultancy. Anuradha Desai is also active in the National Egg Coordination Committee and in issues of poultry and feed availability.

Mallika Srinivasan, Director of the Rs 700 crore Tractors And Farm Equipment (TAFE), was born in one of the largest closely held corporate houses, Amalgamation group. Mallika Sriniva-san is also the wife of Venu Srinivasan of the TVS group. She is not only the official spokesperson at TAFE but is also hands-on in the company's day-to-day business.

Lalita Gupte, Joint Managing Director, ICICI Bank, joined ICICI in 1971 after her MBA. She took over her current position in 1999. Today, she is on the bank's board and heads its new area, the international business group. Under her guidance the bank has opened its fifth office in London.

Ekta Kapoor, Creative Director of the Rs 180 crore Balaji Telefilms, has completely rewritten the rules of the game of television production business.

Naina Lal Kidwai, Vice-Chairman and Managing Director of HSBC Securities & Capital Markets, created ripples in 2003 when she was listed as one of the world's most powerful businesswomen by *Fortune* magazine. Today, she is recognised as one of the most powerful investment bankers in the country.

PROFILES OF SUCCESSFUL WOMEN ENTREPRENEURS

Kiran Mazumdar Shaw

Biotech Entrepreneur and CEO of Biocon India Group, Padma Shri Kiran Mazumdar Shaw is forward looking, driven, enterprising, and definitely outspoken.

> Visit www.ciionline.org to know more about the successful women entrepreneurs.

***Background*:** Kiran Mazumdar Shaw is India's first brew mistress (she received postgraduate training in malting and brewing in Australia) and the leading lady of Indian biotechnology. She started Biocon in 1978, collaborating with an Irish company to manufacture enzymes. But the quest to do something different has led her to 15 patents for novel enzymes in recent years and a pool of over 70 enzymes, all of which are in commercial production.

This businesswomen's vision has helped transform Biocon from an industrial enzyme company into an integrated biopharmaceutical company with strategic research initiatives, and made it one of the leaders in India's biotech industry. Biocon has a string of firsts to its credit: It is the country's first biotechnology company to export microbial enzymes to USA and Europe, and the first to receive ISO 9001 certification. Biocon will also soon be the world's first company to manufacture human insulin using the yeast organism *Pichia pastoris*

***How did Biocon India happen*:** A chance meeting with the founder of Biocon International, Leslie Auchincloss marked the start of Biocon India. It was not smooth going. Banks and financial institutions had never heard of biotechnology back then in 1978 shied away from her proposals. An added reason was also that her being a women. This was also the problem when she started recruiting, because people were wary of working for a women. But it did not take long for Kiran Mazumdar Shaw to dispel those myths.

She started Biocon in 1978 collaborating with an Irish firm and floated two joint ventures, Biochemizyme and Biocon-Quest India Ltd. With her commitment to individual enterprise, she has held positions in industry councils, including Vice-President, Association of Women Entrepreneurs of Karnataka (AWAKE).

After the S.M. Krishna government came to power, she was made the Chairperson of the Vision Group on Biotechnology to draw up the State's Biotech Policy. The policy was announced on 16 March 2005, and is the first ever such policy in the country with farsighted provisions and help to the industry.

So where does she go from here? "My vision is to grow into a global bio-therapeutics company with very innovative and proprietary products and technologies", she says.

Her greatest achievement is "being a co-inventor of the Plafractor (a patented bioreactor that combines fermentation and extraction)". But she says she is equally proud of "our global success in statins, our [US Food and Drug Administration] qualification on our very first inspection (and) our successful plant scale-up of recombinant human insulin on our very first batch".Biocon has made an impact on the American and European markets, a factor behind the company's impressive performance.

The Biocon group has many success stories to its credit. It has been successful in setting up a premiere educational institution called the Institute of Bioinformatics and Applied Biotechnology (IBAB) in Bangalore, which imparts biotechnology training and education. But the most important success stories of the Vision Group are the conception and organisation of Bangalore Bio, an annual event to showcase biotechnology opportunities and initiatives. The government of Karnataka has declared April 15 as an annual date for Bangalore Bio.

Her Scottish husband, John Shaw, is Biocon's Vice-Chairman.

Kiran Mazumdar Shaw, whom the *Economist* once called "India's biotech queen" and the *New York Times* "India's mother of invention", has a coffee table book, *Ale and Arty*, to her credit. The book is all about brewing beer, interspersed with paintings by some of Indian's best artists. Some of the famous brewing families of the world and beer firms of the country find a place in the book.

Shahnaz Hussain

Shahnaz Hussain is a name that has become internationally renowned for Ayurvedic care & cure. She is both the pioneer and the undisputed queen of herbal care, having set the standards that others aspire to. Hers is a remarkable career that has been dedicated to the cause of the Indian herbal heritage and Ayurveda, taking them far beyond the boundaries of her country and achieving the kind of international acclaim that has surpassed her wildest dreams. Today, she heads an organisation that is the largest of its kind in the world, with an integrated system of an international salon chain, supported by product ranges. Every formulation with the SHAHNAZ HUSSAIN label is a symbol of her profound understanding of herbal care and her dedication to the cause of the Indian heritage.

But, how many know the women behind the name, the women who had the burning desire to recapture an ancient heritage and make it relevant to modern demands… the women with relentless determination, courage and a crusader's zeal.

Shahnaz Hussain also runs a school, Shamute, where free training in cosmetic therapy is provided to the speech and hearing impaired.

***Family background*:** Shahnaz Hussain belongs to a royal family, who originally came from Samarkhand and later held prominent positions in the royal governments of Bhopal and Hyderabad during the pre-independence days. It is also a family of eminent legal luminaries. Married at 15, she became a mother by the time she was 16. She was fortunate to have a broadminded, Oxford-educated father, Chief Justice N.U. Beg, who put her through schooling in an Irish convent and instilled in her a love of poetry and English literature. He also imbued in her the right combination of traditional values and progressive ideas and Shahnaz Hussain learnt to love and respect the rich heritage of India. It was her extraordinary personal qualities that made her determined to emerge from a sheltered and secure life and venture into the world of entrepreneurship, where she had to wage a lone battle to fulfil her dreams.

Entrepreneurship: Shahnaz Hussain returned to India, after training for 10 years in cosmetology and cosmetic chemistry with some of the leading institutions in London, New York, Paris, and Copenhagen and started her own herbal salon for skin and hair care. Instead of following the existing salon treatment methods, she decided to adopt the principle of "Natural Care and Cure" and apply the Ayurvedic system and formulate custom-made products for skin and hair problems. Thus was born the legendary Shahnaz Herbal range of therapeutic products. Today, the Shahnaz Husain Group is engaged in the formulation and marketing of over 400 Ayurvedic formulations for skin, hair, and body care, which have not only become widely known, but have received unprecedented international acclaim.

Intensely proud of her country and heritage, Shahnaz Hussain has dedicated her life and her career to fight for the recognition of Indian Ayurvedic products, representing India at Festivals of India and CIDESCO, and focusing attention on the relevance of Ayurveda to modern-day problems and needs.

During the last three decades, the Shahnaz Hussain Group has acquired a tremendous global presence, having sold at prestigious stores like Galleries Lafayette (Paris), Harrods and Selfridges (London), the Seibu chain in Japan, Bloomingdales (New York), La Rinascente in Milan (Italy), as well as at other exclusive outlets and clinics worldwide. In fact, Shahnaz was the first Asian to enter Galleries Lafayette in herbal care and the first Asian to be featured in the 18-foot shop window of the store. The group has salons and outlets in prominent locations all over the world, which have extended on a unique franchise system. With the professional infrastructure to support the demands of products and publicity, and tremendous goodwill, the Shahnaz Hussain Group has also gone global with its other ventures like the Shahnaz Hussain forever beautiful lifestyle shops, beauty training institutes, ayurvedic centres and Shahnaz Hussain medispas.

Ritu Kumar

In the late 1960s India was going through profound changes—plastics had replaced mud, brass and silver; factory-produced papers and woods took the place of sophisticated handicrafts and nylons displaced an ancient heritage of cotton and silk. It was not only a battle between tradition and modernity; it was also a confrontation of lifestyles and values.

Visit www.biocon.com, www.indoindians.com, www.ritukumar.com to know more about Dr. Kiran Mazumdar Shaw, Shahnaz Hussain and Ritu Kumar.

During this time, a small group which had benefited from unique opportunities of study and travel began to see the depth of the craft and design heritage of their own country. They discovered that India was a reservoir of delicate skills.

In an attempt to merge their international experiences with the skills of their people, they became aware that contemporary designers must revitalise their own roots and identity. This was essential to take Indian creativity to the world in a way that benefited both craftsmen and the modern consumer. This scattered group, including Ritu Kumar, was to become the country's leading designers of buildings, garments, fabrics and accessories.

Ritu Kumar began with hand block printers and two tables in a small village near Kolkata, and in the last 28 years, Ritu's team of dedicated workers have progressed to produce some of the country's most exquisite garments and accessories in cotton, silk, and leather. These ranges embrace both traditional textile crafts and the lineage of Indian design. Over the centuries, traditional skills that had been lost have been revitalised and this has enabled the craftsmen to continue working in their own environment. Ritu Kumar has pioneered the term "fashion" in the Indian context, and more importantly, demonstrated that hand-made products can be as profitable and even more glamorous than those made by machine.

Ritu Kumar's forte is traditional Indian clothes that draw heavily on the textile and embroidery heritage of India and remain classics of their kind. She has however, evolved another style for the European buyer. Her Indo-west fusion wear has all the trappings of block prints, embroidery and craft inputs merged with a western style.

Ritu Kumar has been designing the wardrobes comprising swim wear, evening wear, traditional Indian wear, casual wear, and formal evening gowns of the winning three Miss Indias, for their participation in the international beauty pageants (Miss Universe, Miss World & Miss Asia-pacific respectively).

Ritu Kumar has opened many outlets all over India. Style icons such as late Princess Diana have patronised her outfits. She also launched her book *Costumes and Textiles of Royal India,* published by Christie's, London.

WOMEN'S ORGANISATIONS SUPPORTING WOMEN'S ENTREPRENEURSHIP

Shri Mahila Griha Udyog Lijjat Papad

Having founded huge business empires, mighty people like JRD Tata, JD Birla and Dhirubhai Ambani needs no introduction within or outside India. But have you ever heard of Jashwantiben Popat? She's a simple unassuming 80-year-old lady, hailing from an impoverished neighborhood in Mumbai who lately humbled several heavy weight businesswomen and top MBA graduate by walking away with the coveted Economic Times award for Corporate Excellence in September 2002. Popat, was honored again by being named as the recipient of the Whirlpool Gr8! Women Awards 2004 in the "Social Services" category! Jashwantiben Popat is the woman responsible for making *Lijjat Papad* a global brand name and thus contributing immensely to women empowerment. This organisation, which started off with a mere Rs 80 and seven members now provides the means for self-employment to over 42, 000 member sisters across the country and has expanded its sales to over Rs 300 crores. *Lijjat Papad* can now boast of an annual turnover of Rs 315 crore of which Rs 12 crores comes from its export wing alone (started in 1960).

SNAPSHOT

In the above section the success story of three women's organisations promoting women entrepreneurship in India is presented.

- The strength of Women Entrepreneurs -Shri Mahila Griha Udyog, Lijjat Papad (Recognised by Khadi and Village Industries)
- Co-operative Women Entrepreneurship- The Mahila Bunkar Sahakari Samiti
- Sabala: An organisation for women empowerment

The Lijjat Papad story: This is the story of seven illiterate and poor women who borrowed Rs 80 to start a papad business, and took its turnover from Rs 6,196 in the first year (1959) to Rs 300 crore including Rs 12 crore worth of exports, in the next four decades, involving over 40,000 women in its revolutionary march. The story chronicles the growth of an exclusive women's organisation, run and managed by women, producing a quality product and thereby empowering them.

Shri Mahila Griha Udyog, the makers of the Lijjat Papad, is a women's organisation, which symbolises the strength of women. Shri Mahila Griha Udyog manufactures various products such as papad, khakhra, appalam, masala, vadi, gehu atta, bakery products, chapati, Sasa detergent powder, Sasa detergent cake, Sasa Nilam detergent powder, and Sasa liquid detergent.

The organisation is widespread. Its central office is located at Mumbai and its 62 Branches and 40 divisions are spread in different States all over India. Membership has also expanded from the initial 7 to over 40,000 throughout India.

The success of the organisation stems from the efforts of its member sisters who have withstood several hardships with unshakable belief in "the strength of a woman".

The turning point of the institution came in 1966 when it was registered under the Bombay Public Trust Act, 1950 and also the Societies Registration Act, 1860, and it got recognition from the Khadi & Village Industries Commission as a village industry.

The early days were not easy. The institution has had its trials and tribulations. The faith and patience of the members were put to test on several occasions. Self-reliance was the policy and no monetary help was to be sought (not even voluntarily offered donations). With quality consciousness as the guiding principle production, *Lijjat* grew to be the flourishing and successful organisation that it is today.

***Salient features of the organisation*:** The objective of the this women's organisation is to provide employment to women to enable them to earn a decent and dignified livelihood.

Any woman who can render physical work in this institution without distinction of caste, creed and colour, and agrees to abide by the objectives of the institution can become a member from the date on which she starts working.

Every branch is headed by a Sanchalika who overseas production. The Central Managing Committee consists of 21 members of whom six are elected office bearers—President, Vice-President, two Secretaries and two Treasurers.

All the branches are autonomous units for the purpose of profitability. The profit or loss, as the case may be, of each unit is borne by the owner sister members of that branch by increasing or decreasing their rolling charges accordingly.

The exports are made through merchant exporters to countries such as UK, USA, Middle East, Thailand, Singapore, Hong Kong, Holland, and Australia.

***Organisation core values*:** Shri Mahila Griha Udyog Lijjat Papad is a synthesis of three different concepts, namely,the concept of business; the concept of family; and the concept of devotion.

These concepts are completely and uniformly followed in the organisaton. As a result of this synthesis, a peculiar "Lijjat" way of thinking has developed therein.

The organisation has adopted the concept of business from the very beginning. All its dealings are carried out on a sound, pragmatic and commercial footing - production of quality goods at reasonable prices. It does not accept any charity, donation, gift, or grant from any quarter. On the contrary, the member sisters donate collectively according to their capacity for good causes from time to time.

The organisation has adopted the concept of mutual family affection, concern and trust. All the affairs of the organisation are dealt with in a manner similar to that of a family carrying out its daily household chores.

The most important concept adopted by the organisation is the concept of devotion. For the member sisters, employees and well wishers, the organisation is not merely a place to earn one's livelihood. It is a place to devote one's energy not for personal benefits but for the benefit of all. Work here is deemed to be worship. The organisation is open for everybody who has faith in its basic concepts.

***Recognition*:** The organisation has received many awards over the years including the Best Village Industries Institution from the Khadi & Village Industries Commission for the period 1998–1999 to 2000–2001; the Economic Times Award for the institution for Corporate Excellence in 2002; and the Best Village Industry Institution award at the National Convention on Rural industralisation, held by Khadi & Village Industries Commission along with Ministry of Agro and Rural Industries at New Delhi in March 2003.

Mahila Bunkar Sahakari Samiti

The settlements of the Trans-Yamuna area in Uttar Pradesh near New Delhi represent the upheaval and tumult of societies undergoing transformation from an entirely rural/agrarian environment to an urban one. With changes in land use, agrarian folk are often deprived of their traditional occupation, livelihood and land. They are expected to become entrepreneurs and understand the needs of global markets. Most of these people are not even literate. Migration to city slums and employment as unskilled hard labourers often seem to be the only option. For the defiant among them, drunkenness, petty and sometimes organised crime is always an option.

Along with other artisan communities, the weavers of these villages began to feel that their skills were no longer of any use. As the village economy broke up, they sold their looms. They also felt that the age of the unorganised handloom sector was at an end because they could no longer sell their goods at competitive prices in markets accessible to them. Increasingly, women were forced to seek employment in addition to their traditional responsibilities to their households and families. Women sought employment in neighbouring factories or in nearby Delhi as unskilled labourers. Their status, however, remained unchanged, as in much of rural Uttar Pradesh; they remain typically subjugated by their husbands and sons, discouraged from educating themselves.

In response to this situation, the Indian Institute of Natural Resources Management (IINREM), a NGO formed in 1991, decided to take action. The aim was two-fold: to organise the weavers of five villages of western Uttar Pradesh identified by local government officials as particularly demoralised and deracinated, and to provide women in the villages with marketable skills. Members of IINREM reviewed the situation and developed a strategy to create real and lasting changes in Surajpur, one of the chosen villages.

- Women would be trained to weave products that were in demand and offered good profit margins. The products included durries, bedcovers, bed sheets and table-mats.
- Women would be encouraged to participate actively in marketing their own products; this would be promoted by a weaver's cooperative society that would be set up.

To strengthen and structure the process of capacity building, training projects funded by government agencies were organised and about 150 women were trained over a period of two years. A large number of them were from the families of traditional weavers and eventually made up the core of the cooperative society, the Mahila Bunkar Sahakari Samiti.

In setting up a viable business for the group of women weavers, identification of markets was a necessary step. IINREM approached Fabindia, a retailing house that was seasoned in dealing with village weavers, had a devoted clientele, and had the potential for expansion. Fabindia additionally had a very strong nationwide presence in the handloom sector. Fabindia helped the Surajpur weavers directly by placing orders with them for their goods and indirectly by lending credibility to their work. As a consequence Surajpur now has a reputation for weaving excellence. The training of the women was conducted with this goal in mind and the orders placed by Fabindia have become their mainstay.

The road to this goal was rough. Both the weavers and IINREM members struggled to bring down costs, raise weaving standards, meet production deadlines and promote the products. Weavers had to be taught to understand the demand for new products and to accept the market requirements of quality assurance, competitive prices, and timely delivery. Several weavers dropped out of the programme because these concepts clashed with the pace of rural life. Other difficulties lay ahead for those who persevered. For instance, in the early days of the cooperative, there was considerable difficulty on the part of members in understanding that their centre was not a profit-making undertaking for the promoters. Even with office bearers elected from amongst the women weavers, most members saw the organisation as a factory owned by the promoters. It became clear that the weavers had to be brought face to face with their customers to realise their role in maintaining and running the cooperative.

As the cooperative grew, new markets and approaches had to be explored to accommodate the growing numbers of weavers. The excess materials that the cooperative produced was sold at fairs, giving the women an opportunity to see for themselves how transactions took place. Feedback from the customers made them think of the worth of their products and of introducing innovations in their work. They learned more about collective and individual responsibility and grew more confident. Interaction with cooperatives from other regions also helped the Surajpur women to enhance their understanding of a cooperative set up.

Through one season of such participation, the cooperative came into contact with designers, other manufacturers, and traders. In March 1996, IINREM contacted an export house named Alps, which helped the cooperative identify appropriate products for export. They trained the weavers, supplied them with raw material and proposed a "buy back" system for their eco-friendly products. By linking demand for specific products with training and skill enhancement, IINREM encouraged interaction between the weavers and the exporters, thereby ensuring fair earnings for the weavers and satisfaction for the buyer. At present, some 12 looms and 10 women are engaged in winding and warping (a form of yarn arrangement) for Alps. This connection with the export house has brought in new technology and encouraged the use of natural dyes in response to demand from the international market.

Apart from the purely economic preoccupation, the women weavers have received health check-ups, eye care and postnatal care. They have been encouraged to save a portion of their earnings in post office bank accounts. Other social workers have been invited to interact with the cooperative members, who are very gradually coming to see themselves as part of an integrated group. The cooperative is now four years old and has achieved much in a short time. However, family and village pressures continue to be very strong and are such that the women often give up and revert to their previous role of near-bondage. While efforts made by the cooperative have resulted in greatly improved savings, the women need constant reassurance that they, too, have the right to eat better and improve their physical well-being.

Clearly, the existence of the cooperative depends entirely on its ability to generate income. This is the main attraction as the women can now earn more than the minimum (prescribed) daily wage. Their self-esteem, self-reliance and capacity to take on responsibility has grown although they are not yet strong enough to withstand societal pressures. Social set-ups demand total obedience from the women towards all the male members of the family, including her sons. For this reason, some women do not reveal their entire incomes to the men as most of their finances would then go to providing liquor or cigarettes and would be diverted from essentials. In fact, the process of empowerment needs to be somewhat low key and subtle so that the transition to a more equitable family situation is achieved without antagonism.

IINREM is optimistic that it can take on larger training programmes in the same area. The cooperative may expand its membership if there are projects that train women in compatible skills. With a view to improving the conditions of the present cooperative and strengthening its work, IINREM hopes to establish accessible health facilities for the women and their families. At the same time, identifying new markets and products for the cooperative remains an ongoing effort.

SABALA: Crafting Exports of Indian Handicrafts

Sabala is a non-profit organisation established in the year 1986. It is registered under Karnataka Societies Registration Act, 1960. Sabala is governed by a governing council, which provides policy guidelines. The secretary Smt. Mallamma S Yalwar heads Sabala. She is also the Chief Executive of the organisation, supported by a project coordinator and other field staff. Sabala is operating in 60 villages of Bijapur district. It has trained 800 Lambani women (tribal community of North Karnataka), in handicraft work by developing self-help groups. Sabala has over a period of time strived towards reviving traditional Lambani and Kasuthi crafts.

Vision

Empowerment of women and other marginalised communities to have access to sustainable, livelihood opportunities.

Objectives of the organisation

- Educate women on social and economic issues, create awareness, provide self-employment
- To strengthen women's groups for undertaking development programs
- To build their own societies, in order to sustain over all development
- To create employment opportunities by developing and managing natural, physical, social, financial and human resources
- Conduct programs and awareness to improve health and nutritional aspects of mother and child to reduce child mortality, antenatal mortality and anemia

Core activities already implemented

- Organisation of Self-help Groups (SHG) for women and networking.
- Livelihood promotion
- Skill Development and skill upgradation training
- Establishment of training cum production center
- Marketing support - urban, rural, national and international
- Housing
- Watershed management/sustainable agriculture
- Training to Panchayat Raj elected representatives
- Establishment of micro finance institutions
- Mother and child health care/AIDS education
- Bio-intensive gardening
- Land appropriation.

Importance of the Indian handicraft industry

The small-scale and cottage sector helps to solve social and economic problems of the artisans by providing employment to over 60 lakh artisans, which include a large number of women and people belonging to weaker sections of the society. In addition to the high potential for employment, the sector is economically important from the

> Visit www.lijjat.com, www.sabalaindia.com, and www.indiatogether.org to learn more about these organisations.

point of low capital investment, high ratio of value addition, and high potential for export and foreign exchange earnings for the country.

The industry is highly labour intensive and decentralized, being spread all over the country in rural and urban areas. Many artisans are engaged in certain craftwork on part time basis. India is one of the important suppliers of handicrafts to the world market. Although exports of handicrafts appear to be sizable, India's share in world exports is very small. Despite the existence of production base and a large number of craftsmen, India has not been able to encash existing opportunities. The emergence of handicrafts sector, as one of the resources of foreign exchange earnings for the country, is evident from the data on international trade in handicrafts from India.

Handicraft is a sector that is still explored from the point of view of hidden potential areas. Going back into the reason for small share of Indian handicrafts in the world market, the main parameter, which comes out, is "Search and Exploration of Hidden Crafts of India." The impact is due to the changing consumer taste and trends. In view of this, it is high time for Indian handicraft industry to go into the details of changing designs, patterns, product development, requisite change in production facilities for a variety of materials, production techniques, related expertise to achieve a leadership position in the fast growing competitiveness with other countries. The 6 million craft persons of Indian handicraft industry need to be provided with inherent skill, technique, and traditional craftsmanship and also an institutional support system for gaining an edge over other competitors like China, Korea, Thailand, etc.

SUMMARY

- The Government of India has defined a women's entrepreneurship as "an enterprise owned and controlled by a women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated by the enterprise to women".
- The overall context of women's entrepreneurship development can be described in three different spheres: micro sphere, meso sphere, and macro sphere.
- The problems and constraints experienced by women entrepreneurs have resulted in restricting the expansion of women entrepreneurship. Facilitating their direct participation in income-generation activities and decision-making capacity can make significant contributions towards women empowerment. Entrepreneurship can help women's economic independence and improve their social status.
- There are several institutions in India for promoting women entrepreneurship. Financial institutions and banks have also set up special cells to assist women entrepreneurs.
- Self-help Groups enable the rural poor to earn their livelihood through entrepreneurial activities besides participating in the process of development.
- A select group of women entrepreneurs, who are high achievers, are shattering the glass ceiling.

KEY WORDS

- Women entrepreneur
- Women entrepreneurship
- Micro sphere
- Meso sphere
- Macro sphere
- Gender and Development Approach (GAD)
- Glass ceiling
- Self-help Group (SHG)
- Consortium of Women Entrepreneurs of India (CWEI)
- Federation of Indian Women Entrepreneurs (FFIWE)
- Federation of Ladies' Organisation (FLO)
- Women's India Trust (WIT)
- Central Bank of India Credit Schemes
- National Bank for Agriculture and Rural Development (NABARD)
- State Government Schemes for Development of Women and Children in Rural Areas (DWCRA)
- Small Industries Development Bank of India (SIDBI)
- Self-Employment Women Association (SEWA)
- Association of Women Entrepreneurs of Karnataka (AWAKE)

CASE STUDIES

Case 3.1 Globalising Local Talent

Mrs. Roopa Gupta was an intelligent, creative, and energetic lady. In spite of being an M.Sc in Chemistry, she was a housewife. Her husband, an M.A in economics, was a bank official. Both hailed from a non-business background.

Mrs. Gupta wanted to supplement her family income, but did not want opt for a job. She wanted to get absorbed in a creative activity with some earning potential.

Rural crafts and metal handicrafts held a special appeal for her. Many times she had thought of doing some business in handicrafts. But so far the only outlet for her creative urge was to participate in annual exhibitions organised by NGOs. Winning prizes and appreciation increased her interest in crafts.

At one such exhibition, Mrs. Gupta came into contact with an American interested in artificial jewellery. Mrs. Gupta, got these fabricated through local artisans, and showed them to the American customer, who was highly appreciative. Subsequently, an arrangement was made to book a few consignments to the USA through an exporter.

After the success of this endeavour, Mrs. Gupta looked to the prospects in export business. She decided expand her set-up. Together with a bank loan and money from friends and relatives, she floated their own exporting firm, Medha International. Ornaments, brassware, paper mache products, and lacquer miniatures from Andhra Pradesh and Jaipur constituted the main items of export.

During her foreign tours Mrs. Gupta discovered that ornamental cane furniture could be another promising export item. Through observation, direct interaction with customers, and reading she formed a practical idea about the type and design of caneware that would appeal to western customers.

Back home, she explored the northeastern regions of the country to find out about cane products available there.

Mrs. Gupta quickly switched over to exporting cane furniture only, as there was no competition at all. She provided work to 60 traditional artisans and tribals who took pride in the fact that their work travelled globally and that they contributed to the country's earnings.

Mrs. Gupta's marketing strategy was simple. She would display her wares at exhibitions in different parts of the world and book orders directly.

Every year, Mrs.Gupta would come out with new designs. She did not take part in exhibitions in India nor allow, anybody to see her designs. This step eliminated any possibility of imitation and resultant in competition. Only trusted employees were allowed to see the designs and since the employees were a satisfied, happy lot, there was no question of any breach of trust.

Case Questions

1. Identify the working environment of Roopa Gupta.
2. Identify the advantages of Roopa Gupta as a woman entrepreneur.
3. Critically examine "think global and act local" in the case of Roopa Gupta.

Case 3.2 Calamity to Prosperity

The sudden death of her husband, a commodore, was a shock for Mrs. Renuka Desai, still in her early forties. With two school-going children to support, she could not decide what to do.

Renuka Desai was a B.A., B.Ed. She could easily go in for a job. But would that provide for a life-style her children were used to? Though not quite sure, she thought, only business would do. Again, what business was she to go in for with no experience and capital? After weighing the pros and cons, she talked it over with friends. One friend, with contacts with a garment exporter, promised to provide Renuka a fabrication job.

Renuka began with five machines. Work picked up well. Soon Renuka was thinking of expanding even as many other units were being forced to close down. A sick unit along with a workshed and 20 fully equipped machines was on sale. She struck a deal, with payment in easy instalments. Gradually, she added two more rooms and 10 machines. She achieved a turnover of Rs 2-3 lakh per month. To combat frequent power failure, a generator was procured to take on the full load of all motorised machines. As a result, the unit could run continuously without interruption even in the event of a power failure.

However, labour problems cropped up. One labour leader threatened to close down the unit on flimsy demands. Renuka was determined not to give in. He soon apologised and work resumed smoothly. She learnt to handle labour. She found that appreciation and good behaviour paid. Some welfare measures she adopted included a film show after every 20 days, snacks on payday, and reimbursement of medical expenses of the workers.

As a small measure of diversification she took to cutting and taping shoelaces. She took a loan of Rs 40,000 for procuring a machine for the purpose. Shoelaces would be supplied in bulk to major shoe manufacturers. Though shaky initially, she gained the confidence to market anything.

Renuka became a member of the local Mahila Udyani Sanghathan. She got an industrial plot of 400 sq m at a cost of Rs 2.5 lakh through the Sanghathan. She paid Rs 72,000 for it; the balance would be paid in instalments over a period of five years. Renuka now looks forward to the future, to manufacturing and exporting garments from her new premises.

Optimism and determination are the twin ingredients for success, she says.

Case Questions

1. What made Renuka Desai start her own business rather than seek employment?
2. Identify Renuka Desai's problems as a woman entrepreneur.
3. Critically examine the statement, "Optimism and determination are the twin ingredients for success" in the case of Renuka Desai.

Case 3.3 Role of NGO in Developing Women Entrepreneurs

A smile flits across Kantabai's face when she recalls the old days. Not because they were pleasant, but because she cannot believe that she used to earn so little. Slogging away at her sewing machine to stitch petticoats for as little as Rs 2 per piece, at times even less if the dealer found fault with the piece, she had never imagined that one day she would become an entrepreneur of sorts.

Unmindful of her husband's taunts, she enrolled for a housekeeper training course conducted by a Pune-based NGO, landed a part-time job with a monthly salary of Rs 1,500 and very soon she started selling clothes, mainly undergarments and children's wear. Now she has purchased a stall, courtesy her own savings and an additional loan from the credit and cooperative society run by the NGO, Mahila Udyojakata Sangha, or Association for Women Entrepreneurs (AWE), that initially trained her. "This organisation has changed my life," Kantabai says softly.

Sapna Kulkarni started her catering service after undergoing AWE's housekeeper training course. "I used to make *dabbas* (tiffin) earlier for four to five people but it was not doing well. After doing this course I started a catering service. The training did not help me improve my culinary skills, but I learnt how to do costing/pricing of food items. And most importantly, it made me confident. I am ready to take on the world now," Sapna declares.

Confidence is something that Zarina also wears on her sleeve. A housewife till she enrolled in the domestic patient care course, and she was found to be so good at the work that she was absorbed as a trainer. "I had never thought I would be able to do anything except housework; but this course has changed my attitude and also the perception of others towards me."Today her success is all the more sweeter, as the very conservative in-law who was opposed to her stepping out of the house is now her greatest supporter and admirer.

Kantabai, Sapna, and Zarina are just a few of the numerous women who have undergone a metamorphosis after their association with AWE, and all of them give credit to the organisation as the change-agent. They emphasis that while the organisation has provided the space, the direction and inspiration has come from its founder, Kranti Shitole, fondly known as Krantitai.

It was in 1993 that AWE was set up. Having been associated with various NGOs and more specifically with women, Shitole says she was sure that she wanted to work on the issue of women's economic empowerment. "It has been our experience that whenever there is not enough money at home, it is the women who cut their needs first to the extent that they remain hungry to feed rest of the family. So, our objective was to ensure that women could earn some money. Further, once women get into economic-related activities, money becomes not just a means to survival but it also brings power."

AWE initially began working with women who were already engaged in some economic activity. "The objective was to enhance their skills and make their work more productive. We were sure that economic activities should be need-based to become successful ventures. Since the colony where we were located had recently come up, the immediate needs were stitching falls for sarees, doing pico work, readying tiffin-boxes etc. And women started getting customers right at their doorstep," says Shitole.

Tapping potential markets and networking seem to be the two guiding mantras adopted by AWE. It came up with the innovative idea of holding weekly fairs at the local school ground where everything-from snacks to liquid soaps was sold. This not only successfully catered to local needs; it also brought visibility to the organisation. Next on the organisation's agenda was setting up a savings and credit society.

"It was made compulsory for all women who are associated with AWE to become members of the society because we wanted to make saving a habit with them. So, whether it were the existing entrepreneurs or those who enrolled at any of the AWE training courses, all had to deposit Rs 130 as initial share capital and then a monthly amount of Rs 100 as recurring deposit. We try to see that they save at least 10 per cent of their earnings. Most women pay Rs 200 monthly now," says Shitole.

What started with seven members has now grown to nearly 500 members and so large is the capital that while Rs 2,000 credit is offered across the table, individual loans as high as Rs 35,000 are given. An indicator of the members' changing status is that while initially loans were sought to meet household expenses, women graduated to taking loans to meet the needs of their enterprises such as to buy refrigerators, grinders or food processors, and sewing machines. Now women apply for loans either to purchase homes or agricultural land.

The process of introducing various courses was a gradual one. Again, the guiding objective was that these courses should be good enough to fetch employment. The hugely successful home assistants' course as well as Domestic Patient Care (DPC) courses were introduced, initially with full funding from the Indo-Swiss Vocational Training Trust. Now, the trainees contribute 10 per cent of the fees while another 10 per cent comes from the sale of goods produced by AWE. After completing the home assistants' course, many women have also started their own catering service and those who have completed the DPC course have also managed to find jobs—in homes or in hospitals.

The fashion designing course, where AWE hones the women's tailoring skills, has also been successful. Says Shitole, "Our objective was not to churn out fashion designers. We wanted them to stitch good clothes at a reasonable price because we are very sure about our market, which comprises mainly price-conscious middle class consumers."

In addition, as Sulabha Taru says, "We do not have to go looking for customers. The members of our credit society are our biggest customers—whether for garments or catering services." After completing AWE's tailoring course, she not only started selling products in her own building but has also located dealers from whom she gets blouse pieces at a discounted rate. "The more dynamic a women, the higher her earnings. Our endeavour is to tap this dynamism," says a proud Shitole.

There are many more stories. Like the 27 Muslim women members of AWE who churn out mouth-watering biryani from their kitchens. All AWE did was to standardise the product quality to ensure uniformity. "We found that one used more oil, another one's was too spicy. So, we gave them some tips on uniform quality and hygiene," says Shitole. The catering service run by AWE is so popular that people living almost 20 km away place orders, particularly for biryani!

Then there are women like Nanda Chavan, a housewife, who is now one of the directors of the credit and cooperative society. Stepping out of her home at her daughter's insistence, she motivated 27 domestic maids in her locality to become members of the credit society. They in turn brought in many others. "Life earlier revolved around my home; now the entire community is my home," Nanda says with a broad and confident smile

Case Questions

1. How did the Association for Women Entrepreneurs (AWE) change the life of Kantabai?
2. Explain the role of the Association for Women Entrepreneurs in promoting women entrepreneurs.
3. Critically examine the statement, "Empowerment of women by entrepreneurship" with the reference to the Association for Women Entrepreneurs.

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2. *www.bizwomen.com*

Information on thousands of women from across the nation who excel in business.

3. *www.weon.com*

Women entrepreneurs online network.

4. *www.ciionline.org*

Profiles of successful women entrepreneurs.

5. *http://www.indiatogether.org*

About Surajpur's cooperative society which empowers women.

6. *http://www.lijjat.com*

The official website of Lijjat Papad.

7. *http: www.sabalaindia.com*

The official website of Sabala. An organisation for women empowerment.

4

Institutions Supporting Small Business Enterprises

An institution, in Karantaka, having an "Entrepreneur Guidance Cell". The Entrepreneur Guidance Cell has supported a large number of small business enterprises.

"*There are always plenty of resources for those who can create practical plans for using it.*"

—N Hill

Learning Objectives

- To identify the Central level institutions/agencies supporting small-business enterprises
- To identify the State level institutions/agencies supporting small-business enterprises
- To identify other agencies supporting small-business enterprises

INTRODUCTION

The Ministry of Small-Scale Industries is the administrative Ministry in the Government of India for all matters relating to small-scale and village industries. It designs and implements policies and programmes through its field organisations and attached offices for promotion and growth of small industries. The Department of Small-Scale Industries and Agro and Rural Industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. The Department initiates appropriate policy measures, programmes, and schemes for the promotion of SSIs. The policy measures include the setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other Central/State government departments, promotional agencies, autonomous institutions, non-government organisations, and so on, which provide support to SSIs in different ways. The department monitors the progress and evaluates performance of the sector at the Central level.

The implementation of policies and various programmes/schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely the Small Industries Development Organisation (SIDO), statutory bodies/other organisations like Khadi and Village Industries Commission (KVIC) and Coir Board, a Public Sector Undertaking, National Small Industries Corporation (NSIC) and three training institutes—National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship (IIE), Guwahati and National Institute for Entrepreneurship and Small Business Development (NIESBD), New Delhi.

The importance of the small-scale sector, a strong institutional network has been evolved for the promotion of small industries in the country. The institutional network can broadly be classified as under and is shown in Figure 4.1.

1. Central level institutions/agencies
2. State level institutions/agencies
3. Other agencies

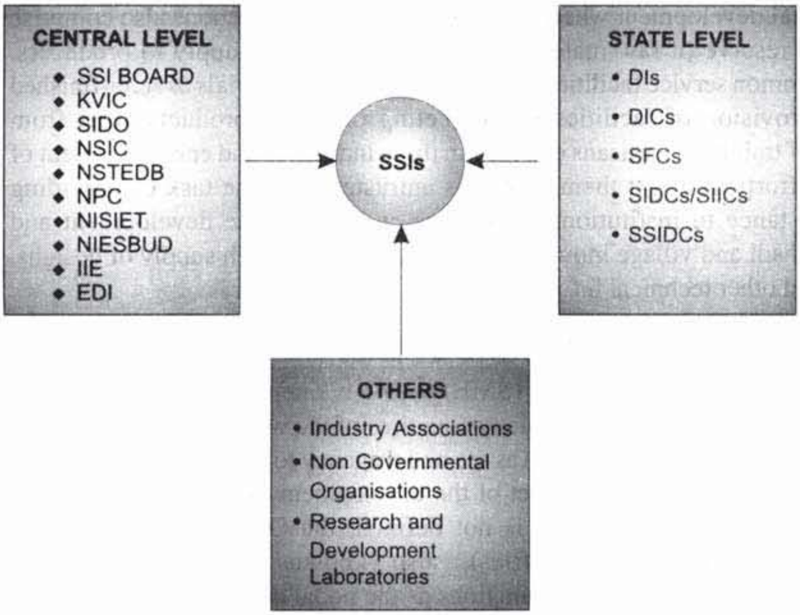

Figure 4.1 ■ Institutions supporting small-scale industries

CENTRAL LEVEL INSTITUTIONS

1. Small-scale Industries Board (SSI Board)

The SSI Board was constituted in 1954 to facilitate the coordination and inter-institutional linkages for the development of the SSI sector. The Board is an apex advisory body constituted to render advice to the government on all issues pertaining to the SSI sector. The office of the Development Commissioner (Small-Scale Industry) serves as the secretariat for the board. The Union Industry Minister is the Chairman of the Board, which has State Industry Ministers; select Members of Parliament; secretaries of various departments of the Central Government, financial institutions, public sector undertakings, industry associations, and eminent experts in the field as the members. The Board broadly operates in the following areas.

- Policies and programmes
- Development of industries in a specific region such as the North East
- Ancillary development, quality improvement and marketing assistance
- Credit facilities, taxation and modernisation
- Industrial sickness.

2. Khadi and Village Industries Commission (KVIC)

The KVIC is a statutory body created by an act of Parliament (No. 61 of 1956 and as amended by Act No. 12 of 1987). It is charged with planning, promotion, organisation, and implementation of the programme for the development of khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary. KVIC's functions also comprise building up a reserve of raw materials and implements for supply to producers, creation of common service facilities for processing of raw materials as semi-finished goods, and provision of facilities for marketing of KVIC products apart from organisation of training of artisans engaged in these industries and encouragement of cooperative efforts amongst them. KVIC is entrusted with the task of providing financial assistance to institutions or persons engaged in the development and operation of khadi and village industries and guide them through supply of designs, prototypes, and other technical information.

3. Small Industries Development Organisation (SIDO)

The Small and Medium Enterprises (SME) sector is one of the fastest growing industrial sectors all over the world. Many countries of the world have established a SME Development Agency (SMEDA) as the nodal agency to coordinate and oversee all government interventions in respect of the development of this sector. In India, although a separate medium sector is not defined, the Office of Development Commissioner (Small-scale Industries), also known as Small Industries Development Organisation (SIDO), functions as the nodal development agency for small industries. SIDO functions under the Ministry of SSI.

SIDO was established in 1954 on the recommendations of the Ford Foundation. Over the years, it has seen its role evolve into an agency for advocacy, handholding and facilitation for the small industries sector. It has over 60 offices and 21 autonomous bodies under its management. These autonomous bodies include tool rooms, training institutions, and project-cum-process development centres. SIDO provides a wide spectrum of services to the small industries sector. These include facilities for testing, tool mending, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits, and so on. SIDO provides economic information services and advises the government in policy formulation for the promotion and development of SSIs. The field offices also work as effective links between the Central and the State governments.

The office of the **Development Commissioner Small Scale Industries DC(SSI)** is directly under the Union Ministry of Industry and is a nodal agency formulating, coordinating and monitoring the policies and programmes for promotion and development of Small-scale industries in the country. The Office of the Development Commissioner (Small-scale industries) is an attached office of the Ministry of SSI, and is the apex body to advise, coordinate and formulate policies and programmes for the development and promotion of the Small-scale sector. The office also maintains liaison with Central Ministries and other Central/State government agencies/organisations and financial institutions. It maintains close links with all the agencies including State governments. It provides a comprehensive range of facilities and services including consultancy in techno-economic and managerial aspects, training, common processing and testing facilities, tooling facilities, marketing assistance etc. to the small-scale units. DC(SSI) provides all its services through a network of SISIs, branch institutes, extension centres, regional testing centres, Product and Process Development Centre, Footwear training centres and production centres as shown in Fig 4.2. Advising the Government in policy formulation for the promotion and development of small-scale industries.

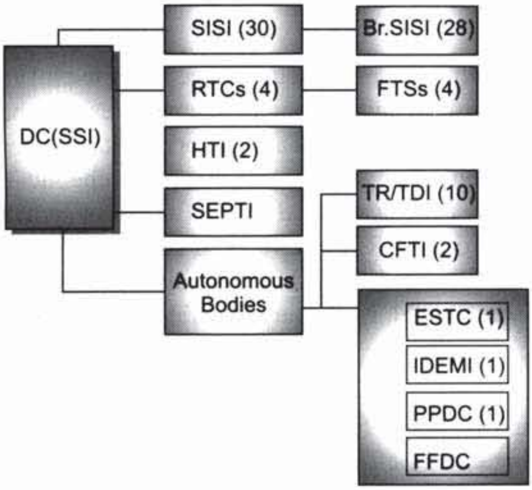

Figure 4.2 ■ Organisation Structure of DCSSI

Institutional network

The Development Commissioner (SSI) heads the Small Industry Development Organisation (SIDO), which has a network of 30 Small Industries Service Institutes (SISIs), 28 Branch Small Industries Service Institutes (Br. SISIs), 4 Regional Testing Centres (RTCs), 7 Field Testing Stations (FTSs), 19 Autonomous bodies which include 10 Tool Rooms (TRs) and Tool Design Institutes (TDI), 4 Product-cum-Process Development Centres (PPDCs) 2 Central Footwear Training Institutes (CFTIs), 1 Electronics Service and Training Centre (ESTC), 1 Institute for Design of Electrical Measuring Instruments (IDEMI), 2 National Level Training Institutes, and 1 Departmental Training Institute and 1 Production Centre.

(a) Small Industries Service Institutes (SISIs)

SISIs are operational throughout the country and the office of the DC (SSI) oversees their respective performances.

The main functions performed by SISIs are as follows.

- Interface between Central and State governments
- Technical support services and consultancy services
- Entrepreneurship development programmes
- Developmental efforts
- Promotional programmes
- Export promotion and liaison activities
- Ancillary development.

Reports prepared by SISIs have been emphasising the implementation of programmes on modernisation, energy conservation, quality control/upgradation and pollution control for the benefit of entrepreneurs.

Sub-contract Exchanges (SCXs) at SISIs: Sixteen Sub-contract Exchanges have been established in the major SISIs in the country with the objective of promoting ancillarisation.

The activities of these exchanges are to

- register spare capacities available in SSI and tiny units;
- identify the items required by large units on a regular basis and match this with spare capacity available;

- promote interaction between small and large units;
- organise vendor development programmes, exhibitions, and promotional programmes; and
- establish networking linkages with other SCXs in the country for flow of information.

(b) Regional Testing Centres (RTCs)

Four RTCs at Chennai, New Delhi, Mumbai, and Calcutta have been useful in spreading quality awareness amongst industrial units through systematic testing and by rendering technical consultancy services. These centres are equipped with modern sophisticated machinery and equipment for testing mechanical, chemical, metrological, and electrical products. They are accredited to the Bureau of Indian Standards, Pollution Control Board, and others. RTCs have been supporting eight Field Testing Stations that provide testing services to SSI units in different product lines and are located at Dehradun, Jaipur, Bhopal, Kolhapur, Hyderabad, Bangalore, Pondicherry, and Changanacherry.

(c) HTI-Programme Objectives

1. Technology upgradation of Hand Tool SSI clusters at Jallandhar (Punjab) and Nagaur (Rajasthan) by adopting energy efficient and clean technology and other measures.
2. Strengthening of Institutional structure and capacity building of CIHT, Jallandhar and HTDDTC, Nagaur.
3. Strengthening of policy framework to promote replication of energy efficient technologies demonstrated.
4. Developing an international marketing strategy and support measures for export promotion to enhance the export share of SSI units in the world market.

(d) Small Entrepreneurs Promotion and Training Institute (SEPTI), Tiruvalla

The erstwhile Production Centre for electronic motors was renewed as Small Entrepreneurs Promotion and Training Institute (SEPTI), Tiruvalla, in the year 1992-93, with a view to conduct specialised skill oriented Entrepreneurship Development Programmes for educated unemployed youths. The Institute has been equipped with Electronic Laboratory, Computer Lab, CNC Lab, HEA Lab, ACandR Lab, General Engineering Workshop, EPABX and four training halls with Audio-Visual aids.

To develop the techno-managerial capabilities of the educated unemployed youth, the Institute, since its inception, has been conducting skill oriented EDPs in various trades like General Engineering, Motor Rewinding, Household Electric Appliances, A/C and Refrigeration etc. The Institute generally conducts 16 EDPs in two phases every year. Apart from these, the Centre has also introduced certain diploma and PG Diploma courses in Computer Science varying form 3 months to 12 months duration on a self-sustaining basis. The Centre also organises training for TRYSEM and PMRY beneficiaries.

(e) Tool Rooms and Tool Design Institute (TR/TDI)

These form the heart of the engineering industry. Given the huge investments needed, SSI units cannot afford to invest in individual tool rooms. SIDO, with overseas assistance from countries like Denmark, Germany, and internal agencies like UNIDO and ILO, set up Tool Room Centres having sophisticated machines with the latest technology to help SSI units obtain quality tools. Initially, Tool Room Centres were located at Hyderabad, Ludhiana, Kolkata, Jalandhar, and Nagpur. While new tool rooms been set up with Indo-German and Indo-Danish collaboration at Aurangabad, Indore, Ahmedabad, Bhubaneshwar, and Jamshedpur.

The activities of the TR/TDI are

- designing/manufacturing of dies/tools, jigs, fixtures, gauges, tool components, and so on;
- providing service facilities for the manufacture of tools, heat treatment, testing, and so on;
- training tool and die makers;
- organising short-term/part-time courses for entrepreneurs; and
- undertaking product-cum-process development work in specific industry groups.

(f) Central Footwear Training Institutes (CFTIs)

CFTIs, earlier known as Central Footwear Training Centres, support SSI units in the leather and footwear industries at Agra, Chennai, Kolkata and Mumbai. Modernisation of existing CFTIs is underway at Chennai and Agra with UNDP funds of Rs 90 million.

The objectives of CFTIs are

- training of manpower for the footwear industry; and
- developing design and new types of footwear to promote export.

(g) Product-cum-Process Development Centres (PPDCs)

Six PPDCs have been established and are providing services to SSIs at Ferozabad (for glass industry), Kannauj (for essential oils), Meerut (for sports goods), Ramnagar (for electronic industry), Mumbai (for electrical measuring instruments), and Agra (for foundry and forging).

The main functions of PPDCs are as follows.

- To serve as research and development institutions in areas of dense industry clusters
- To look into the specific problems of industry
- Product design and innovation
- To develop new processes and upgrade the existing level of technology
- To act as centres of excellence in the concerned field
- To render technical support services
- manpower development and training.

Box 4.1 The Main Services Rendered by the DC(SSI) Office

- Advising the Government in policy formulation for the promotion and development of small-scale industries.
- Providing techno-economic and managerial consultancy, common facilities and extension services to small-scale units.
- Providing facilities for technology upgradation, modernisation, quality improvement and infrastructure.
- Developing Human Resources through training and skill upgradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small-scale Industries.
- Evolving and coordinating Policies and Programmes for development of Small-scale Industries as ancillaries to large and medium scale industries.
- Monitoring of PMRY Scheme.

Services provided by SIDO

The main support services provided by SIDO and its associate institutions are listed below:

(a) Entrepreneurship Development and Management Training: A variety of Entrepreneurship Development Programmes (EDPs) and Management Training Programmes are run, under the guidance of SIDO, by the SISIs/branch institutions. Besides, the National Institute for Entrepreneurship and Small Business Development (NIESBUD) and the National Institute of Small Industry Extension and Training (NISIET), which are under the administrative control of SIDO, also organise various EDPs and devise training aids and materials for regular trainers. These programmes aim at identifying entrepreneurial capabilities and motivating and training entrepreneurs to enable them to set up their industrial units with confidence. In addition, special courses are organised for targeted groups of entrepreneurs.

(b) Extension and Training Services: Every year, SIDO provides guidance and assistance on technical, economic, managerial, and other matters to over 0.2 million units and entrepreneurs all over the country. The workshops attached to the SISIs/branch SISIs undertake different types of job works from SSI units and provide services at nominal rates.

(c) Skill Development: Training in technical skill development is provided to technicians and workers at 42 workshops attached to SISIs spread over different locations in the country. The other testing centres, tool rooms and training centres, tool design institutes, and so on also impart training in different technical trades to upgrade the skills of workers and artisans in the SSI sector.

(d) Entrepreneurship Development Institutes (EDIs): With a view to promoting entrepreneurship, a new scheme was introduced during the eighth plan. This scheme was launched by SIDO in 1992–93 and was aimed at strengthening the training infrastructure in the EDIs. A grant up to Rs 5 million per EDI was provided for purposes such as construction/maintenance of building, preparation of training aids, library documentation, computer installation, and so on. The objective has been that EDIs should train ED trainers, motivators, potential entrepreneurs, and beneficiaries identified under PMRY. SIDO has so far provided assistance to 14 such EDIs in the country.

(e) Preparation of Project Profiles: SIDO prepares and updates about 1,000 project profiles on various product groups annually. These are supplemented by industrial potential/feasibility reports on a product-wise basis. Information on markets and technology is also collected, assessed, and disseminated. Project profiles contain detailed information on the product manufacturing process, market potential, quality control and standards, investment requirements, sources of raw material and machinery suppliers, profitability, and so on. Project profiles have been compiled for different products by SIDO, in an industry group-wise manner, for the benefit of entrepreneurs.

(f) Plant Modernisation Studies: Detailed in-plant studies are undertaken for particular small-scale units located in dense industry clusters to identify the present use of process/technology and prepare programmes for modernisation.

(g) Marketing Support: The marketing promotional scheme operated by SIDO involves two main activities: imparting training in packaging technology and promoting participation of SSIs in domestic and international trade fairs.

(h) Collection of Data: Under a scheme entitled "Collection of the status on SSI units", SIDO updates its database by organising sample surveys, industrial censuses, and other field studies. SIDO also processes and interprets data, prepares the Index of Industrial Production (IIP), as well as develops profiles and reports on SSIs. SIDO supplies monthly statistics on the production of select items, which are collected through sample surveys of SSI units for inclusion in IIP, published by the Central Statistical Organisation. SIDO has brought out a publication covering summary information on various facets of the SSI sector.

(i) Prime Minister's Rozgar Yojana (PMRY): SIDO has been operating a Self-Employment Scheme for the Educated Unemployed Youth (SEEUY) while promoting the setting up of business ventures in industry and services. The SEEUY was subsumed in PMRY during 1993. PMRY aims at providing employment to more than 1 million people through the setting up of 0.7 million micro enterprises by (unemployed) educated youths. The scheme also seeks to associate reputed NGOs in its implementation throughout the country.

A number of other self-employment programmes announced for the rural poor were merged by the Union Budget 1999–2000 into a single programme called the "Swaran Jayanti Gram Swa-Rozgar Yojana".

(j) National Awards: SIDO has been providing three national awards for out-standing SSI entrepreneurs since 1983. In addition, special recognition awards have also

Box 4.2 Salient Features of PMRY Programme

- Reservation for SC/ST/OBCs.
- Preference for weaker sections and women.
- No collateral guarantee required. Only assets created under the scheme would be hypothecated to the bank.
- Each entrepreneur whose loan is sanctioned is provided training for 15 to 20 working days and a stipend of Rs 300/- for the industry sector and training of 7 to 10 working days, and a stipend of Rs 150/- for the service and business section.

been instituted State-wise for small entrepreneurs from 1984 onwards. Quality awards for manufacturers of quality products of consumer interest in 15 select groups of industries (in the SSI sector) are also being provided. Further, two special national awards—one each for women entrepreneurs and for SC/ST entrepreneurs—are provided every year. The objectives of the of awards are to encourage small entrepreneurs to innovate, upgrade quality, expand market, and modernise.

(k) Prototype Development and Training Centre: The objectives of these centres are

- to impart practical and classroom training in several industrial trades with special training programmes for rural artisans and weaker sections of the society;
- to develop prototypes of machines, tools, and import substitutes, which are passed on to manufacturing units for commercial production.;
- to provide common facilities in areas such as testing, machining, casting, electroplating, and so on;
- to take up production of machines, partially or fully, as per market acceptability; and
- to design tailor-made crash programmes for entrepreneurs and industrialists, to keep them abreast with the latest in technology.

SIDO schemes

SIDO operates a number of schemes for the SSI sector. Some of those are given below.

- Credit Linked Capital Subsidy Scheme for Technology Upgradation: Capital subsidy at 12 per cent upto Rs 4.8 lakh on loans taken for technology upgradation—*for individual SSIs*.
- Credit Guarantee Scheme: Collateral-free loans upto a limit of Rs 25 lakh—*for individual SSIs*.
- ISO 9000/ISO 14001 Certification Reimbursement Scheme: Incentive Scheme of reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 certification/environment management (EMS) ISO

14001 certification to the extent of 75 per cent or Rs 75,000/-, whichever is lower—*for individual SISIs/ancillary/tiny/SSSBE units.*

- Full subsidy on space rent and shipment of exhibits of SSI units—*for individual SSIs.*
- This is administered through the Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from SSI by the Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit, and 15 per cent price preference in Central Government purchases—*for individual SSIs.*
- Project limit upto Rs 1 lakh for business and Rs 2 lakh for other activities subsidy and margin money upto 20 per cent of project with balance as loan; subsidy for NE twice that of rest of India—*for entrepreneurs, SSIs.*
- For promoting technology upgradation in clusters for a group of SSI units of one industry.
- Integrated Infrastructure Development (IID): Assistance upto 40 per cent or Rs 2 crore, whichever is less, for setting up industrial estates for SSI units. For NE, assistance is 80 per cent or Rs 4 crore—*for State Governments/industry associations/NGOs.*
- Mini Tool Rooms: Assistance upto 90 per cent or Rs 9 crore, whichever is less, for setting up new Mini Tool Rooms. For upgradation of existing Tool Rooms, assistance is 75 per cent or Rs 7.5 crore—*for State Governments.*
- Assistance upto a 50 per cent or Rs 50 lakh, whichever is less, for setting up Testing Centres—*for industry associations.*
- One-time grant for procurement of hardware and thereafter matching grant on tapering basis at 50 per cent, 30 per cent and 10 per cent of running expenses, not exceeding Rs 1.25 lakh, Rs 0.75 lakh, and Rs. 0.25 lakh respectively during the initial three years, subject to a ceiling of Rs 1.57 lakh per exchange—*for industry associations.*
- The scheme offers funding upto 90 per cent in respect of to and fro airfare for participation by SSI entrepreneurs in overseas fairs/trade delegations. The scheme also provides for funding for producing publicity material (upto 25 per cent of costs), sector-specific studies (upto Rs 2 lakh), and for contesting anti-dumping cases (50 per cent upto Rs 1 lakh)—*for individual SSIs and associations.*
- For strengthening training infrastructure in EDIs, assistance upto 50 per cent or Rs 50 lakh, whichever is less—*for State Governments.*

4. National Small Industries Corporation Ltd. (NSIC)

NSIC, established in 1955 by the Government of India, provides vital services for the promotion of SSIs. Its main objective is to promote, aid, and foster the growth of SSIs in the country. With its various programmes and projects to assist the SSI sector in the country, NSIC continues to remain at the forefront of industrial development.

For over four decades of transition and growth in the SSI sector, NSIC has provided strength to the sector through a progressive attitude of modernisation, upgradation of technology, quality consciousness, strengthening linkages with large- and medium-scale enterprises, and boosting exports of products from small enterprises.

Some of the main services provided by NSIC are described below.

(a) Machinery and Equipment (Hire-Purchase Scheme)

- Supply of indigenous and imported machinery (the value of which would not exceed Rs 30 million inclusive of the value of machinery and equipment already installed) on easy financial terms, mainly targeted at first-generation entrepreneurs, women entrepreneurs, weaker sections, physically challenged, and ex-servicemen

(b) Machinery and Equipment (Lease Scheme)

- 100 per cent finance to facilitate SSIs in diversification and technology upgradation
- Tax rebate on full-year rentals

(c) Financial Assistance Scheme

Five financial centres in operation at New Delhi, Mumbai, Ahmedabad, Bangalore, and Goa provide finance to SSIs for the following activities.

- Marketing
- Bills discounting
- Raw material purchases
- Exports

(d) Assistance for Procurement of Raw Material

- Supply under the off-the-shelf basis scheme
- Import of raw materials
- Providing scarce materials on priority basis
- Supplies through NISC depots/godowns

(e) Marketing Assistance

The objectives of the marketing programme of NSIC are the following.

- Ensure fair margin to producers of goods
- Standardisation and quality control with testing facilities
- Market products under a common brand name
- Provide publicity to SSI products
- Upgrade technology by supplying sophisticated machinery and equipment

(f) Government Store Purchase Programme

Eligible SSIs (those competent to execute government orders) are registered under the Single Point Registration Scheme of the NSIC. Bonafide SSI units registered with the Directorate of Industries/District Industries Centres are enlisted under this scheme and become an important source of supplies to Central and State governments, public sector undertakings, and others.

The units registered under the Single Point Registration Scheme with the NSIC are given the following facilities.

- Issue of tender forms/sets free of cost
- Advance intimation of tenders issued by DGSandD
- Exemption from payment of earnest money
- Waiver of security deposit upto the monetary limit for which the unit is registered
- Issue of competency certificate in case the value of an order exceeds the monetary limit, after due verification

In addition, these units also get other facilities such as consideration of price preference upto 15 per cent on merit over the price quoted by large units and the procurement as per the reserved list.

(g) Technology Transfer Centre (TTC)

To upgrade technology in the changed economic scenario following reforms, NSIC has established a TTC at Okhla (Delhi). At the enterprise level, the primary concern is to assist small-scale enterprises in technology acquisition, adoption, and upgradation through its technology information and promotion services.

The services offered to industries include the following.

- Information dissemination on technology, business, and investment opportunities
- Matching of business partners and search for technology worldwide
- Training, consultancy, and technology evaluation
- Technology transfer programmes, such as technology missions/delegations and expositions
- Facility for a reference library publications (periodicals/catalogues)
- Setting up a network to access database

The details of scheme-wise assistance extended by NSIC are covered in Chapter 5.

5. The National Science and Technology Entrepreneurship Development Board (NSTEDB)

Established in 1982, by the Government of India under the aegis of Department of Science and Technology, NSTEDB is an institutional mechanism to help promote knowledge-driven and technology-intensive enterprises. The Board, with representations from socio-economic and scientific ministries/departments, aims to convert "job-seekers" into "job-generators" through Science and Technology (S&T) interventions.

The major objectives of NSTEDB are

- to promote and develop high-end entrepreneurship for S&T manpower as well as self-employment by utilizing S&T infrastructure and by using S&T methods;
- to facilitate and conduct various informational services relating to promotion of entrepreneurship;

- to network agencies of the support system, academic institutions, and R&D organisations to foster entrepreneurship and self-employment using S & T with special focus on backward areas as well;
- to act as a policy advisory body with regard to entrepreneurship.

The programme and schemes evolved by NSTEDB have created awareness among S&T persons to take to entrepreneurship as an alternate career. Academicians and researchers have started taking a keen interest in promoting entrepreneurship, which is now seen not only as economically gainful but also socially relevant. Over 100 organisations, mostly academic institutions, R&D organisations, agencies specialising in entrepreneurship development training and also some voluntary agencies, have been initiated and supported by NSTEDB in the task of income as well as wealth generation besides creating new avenues of gainful and sustainable employment.

Some of the major activities of NSTEDB are outlined here. The programmes are broadly classified into

- training programmes;
- institutional mechanisms for entrepreneurship development; and
- information dissemination .

More programmes are being evolved to suit the changing socio-economic scenario and the available scope for entrepreneurship development.

6. National Productivity Council (NPC)

NPC is an autonomous institution functioning under the overall supervision of the Ministry of Industry, Government of India. The primary objective of NPC is to act as a catalyst in enhancing the productivity of all sectors of the economy, including industry and agriculture. NPC is administered by a tripartite Governing Council (GC), which has equal representation from the government, industry, and trade unions. The Council has the Minister for Industry, Government of India, as its ex-officio President and is chaired by the Secretary for Industrial Development. The Director General of NPC is the Chief Executive Officer, dealing with the day-to-day management of the council.

NPC is active in the field of consultancy and training and has a number of specialised divisions to provide tailor-made solutions to agriculture and industry. These divisions, manned by trained consultants, deal with issues related to industrial engineering, plant engineering, energy management, human resource development, informal sector, agriculture, and so on. NPC has, on its rolls, about 200 professionals specialising in various fields.

NPC's head office is in New Delhi. It has Regional Directorates in almost all the State capitals. This kind of structure makes it possible for the council to take up assignments with all-India coverage. Owing to its tripartite constitution, NPC is called in to take up sensitive assignments like manpower assessment, wage fixation, time and motion studies, and so on. NPC also coordinates the Annual Productivity Awards instituted by the Ministry of Industry and the Ministry of Agriculture for various sub-sectors of the economy.

NPC is a member of the Asian Productivity Organisation (APO), Tokyo, an umbrella body of all productivity councils in the Asian region. NPC plays host to a number of conferences, seminars, and workshops of APO and also nominates suitable persons from different organisations in India for APO training courses abroad.

In an effort to channelise the expertise of NPC to the small-scale and informal sector, SIDBI has entered into a tie-up with the council. The collaboration aims at promoting the concept of productivity in small industry clusters and enhancing the technology level of small units.

Entrepreneurship Development Programmes (EDPs)

EDPs have been designed to identify persons with entrepreneurial abilities and to train them to set up new small/tiny industries. SIDO with its Field Offices (institutes and branch institutes), all over the country, has been training entrepreneurs through various programmes for different target groups such as (i) educated unemployed, (ii) women, (iii) weaker sections, (iv) rural artisans, (v) physically challenged, (vi) students, (vii) defence personnel, (viii) technocrats, and (ix) entrepreneurs under self-employment schemes.

Training Institutes

NISIET (Hyderabad), NISEBUD (New Delhi) and the Integrated Training Centre (Industries) are the main training institutes. They function under the administrative control of SIDO.

There are 16 specialised institutes associated with the SIDO for training, research and development of product designs and processes. The activities of these centres are described in Table 4.1.

7. National Institute for Small Industry Extension and Training (NISIET)

Set up in the early 1950s in Hyderabad, NISIET has been imparting training to entrepreneurs, managers and various development functionaries of State governments, financial institutions and other agencies. NISIET organises about 45 national level and 15 international level programmes every year. It also acts as an important resource and information centre for small units and undertakes research and consultancy for small industry development.

The NISIET since its inception y the Government of India has taken gigantic strides to become the premier institution for the promotion, development and modernisation of the SME sector. An autonomous arm of the Ministry of Small Scale Industries, the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

It was in 1984 that the UNIDO had recognised NISIET as an institute of meritorious performance under its Centres of Excellence Scheme to extend aid.

TABLE 4.1 Specialised Training Institutes

Name of Institute	*Place*	*Activities*
National Institute of Small Industry Extension and Training (NISIET)	Hyderabad	Training, research and consultancy activities
Indian Institute of Entrepreneurship	Guwahati	Training, research and consultancy activities
National Institute for Entrepreneurship and Small Business Development (NIESBUD)	New Delhi	Coordinating and overseeing activities of various institutes/agencies engaged in entrepreneurship development
Integrated Training Centre (Industries)	Nilokher	Conducts EDP course
Institute for Design of Electrical Measuring Instruments (IDEMI)	Mumbai	Render services to the instrumentation industry
Central Institute of Hand Tools	Jalandhar	Aims at rapid growth of the hand tool sector
Hand Tool Design Development and Training Centre	Nagaur	Assistance for improvement in productivity, betterment in quality, high value addition
Central Tool Room	Ludhiana	Provides services in the area of consultancy, tool design and manufacture and technical training
Central Tool Room and Training Centre	Kolkata	Training, design and manufacture of complicated precision tools for the telecom industry and other common facility services
Central Institute of Tool Design (CITD)	Hyderabad	Training, CAD/CAM centre to train post-graduate trainees, automatic process control unit, and so on
Product-cum-Process Development Centre for Sports Goods	Meerut	Training, process and product development of sports goods, R & D
Product-cum-Process Development Centre for Essential Oils	Kannauj	Modernise and upgrade technology status for the essential oils and perfumery industry
Product-cum-Process Development Centre	Agra	Provide better technology to small-scale foundry and forging units, process and product development, and provision of design for melting equipment, testing facilities
Electronic Service and Training Centre	Ramnagar	Training, technical and consultancy services
Centre for the Improvement of Glass Industry	Firozabad	Development and adoption of new technologies and products
National Small Industries Corporation	New Delhi	Supply of machinery, marketing assistance, training

8. National Institute for Entrepreneurship and Small Business Development (NIESBUD)

The National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, is an autonomous body under the administrative control of the Office of the DC(SSI). NIESBUD, an apex body established by Ministry of Industries, Govt. of India for coordinating, training and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development Particularly in the area of small industry and small business.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was established in 1983 by the Ministry of Industry (now Ministry of Small-scale Industries), Govt. of India, as an apex body for coordinating and overseeing the activities of various institutions/agencies engaged in Entrepreneurship Development Particularly in the area of small industry and small business. The Institute which is registered as a society under Govt. of India Societies Act (XXI of 1860) started functioning from 6th July, 1983.

The policy, direction and guidance to the Institute is provided by its Governing Council whose Chairman is the Minister of SSI. The Executive Committee consisting of Secretary (Small Scale Industry and ARI) as its Chairman and Executive Director of the Institute as its Member Secretary executes the policies and Decisions of the Governing Council through its whole-time Executive Director

The Institute conducts about 28 National and 5 International Training Programmes every year. Besides, the Institute undertakes research studies, consultancy assignments, development of training aids etc.

9. Indian Institute of Entrepreneurship (IIE)

With an aim to undertake training, research and consultancy activities in the small industry sector focusing on entrepreneurship development, the Indian Institute of Entrepreneurship (IIE) was established in the year 1993 at Guwahati by the erstwhile Ministry of Industry (now Ministry of Small Scale Industry) , Government of India as an autonomous national institute. The institute started its operations from April 1994 with North East Council (NEC), Govts of Assam, Arunachal Pradesh and Nagaland and SIDBI as other stakeholders.

The policy direction and guidance is provided to the Institute by its Board of Management whose Chairman is the Secretary to the Government of India, Ministry of Small Scale Industries. Chairman, NEC, heads the governing council of the institute and the Secretary, SSI and ARI, and Govt. of India head the Executive Committee.

Objectives

- To organize and conduct training for entrepreneurship development
- To evolve strategies and methodologies for different target groups and locations and conduct field tests
- To identify training needs and offer training programmers to Government and non-Government organisations engaged in promoting and supporting entrepreneurship
- To document and disseminate information needed for policy formulation and implementation related to self-employment

- To identify, design and conduct training programmers for existing entrepreneurs
- To prepare and publish literature related to entrepreneurship and industrial development
- To organize seminars, workshops and confer conferences for providing a forum for interaction and exchange of views by various agencies and entrepreneurs
- To conduct research for generating knowledge to accelerate the process of entrepreneurship development
- To act as a catalyst for development of self-employment/entrepreneurship, industry/business.

To evolve, design and help in the utilisation of various media for creating entrepreneurship

10. Entrepreneurship Development Institute of India (EDII)

The Entrepreneurship Development Institute of India, Ahmedabad, is an autonomous non-profit institution, set up in 1983, sponsored by financial institutions, such as Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), and State Bank of India (SBI). The Government of Gujarat has also provided assistance for the setting up of EDII.

EDII has been spearheading an entrepreneurship movement throughout the nation in the belief that entrepreneurs need not necessarily be born, they can be developed through well-conceived and well-directed activities. In consonance with this belief, the objectives of the EDII are as follows.

- Augment the supply of trained entrepreneurs through training
- Generate a multiplier effect on opportunities for self-employment
- Improve managerial capabilities of small-scale industries
- Contribute to the dispersal of business ownership and thus expand the social base of the Indian entrepreneurial class
- Contribute to the creation and dissemination of new knowledge and insight into entrepreneurial theory and practice through research
- Augment the supply of trainer motivators for entrepreneurship development
- Participate in institution-building efforts
- Sensitise the support environment to facilitate potential as well as existing entrepreneurs to establish and manage their enterprises
- Promote micro enterprises at the rural level
- Inculcate the spirit of 'entrepreneurship' amongst youth
- Collaborate with similar organisations in India and other developing countries to accomplish the above objectives.

The training programmes of the EDII are

- entrepreneurship in education;
- micro-finance and micro-enterprise development;
- performance and growth of existing entrepreneurs; and
- performance improvement of ED institutions and ED programmes.

The educational environment and policy framework offer opportunities for sustainable self-employment to ensure the contribution of the workforce to the industrial economy. Entrepreneurship, self-employment, and enterprise creation thus provide a solution to the crisis of both unemployment and disguised unemployment. With this in view, the EDII has designed and successfully implemented several national and international training programmes and workshops for the academic community and for youth.

EDII organises training programmes on Informal Micro Credit Delivery Systems (IMCDS) and management for strengthening the participating NGOs in the area of informal credit. To strengthen NGOs through building their managerial capabilities, the EDII has launched a programme on the sustainability of NGOs through better management. It also provides a platform to NGOs and bankers with the objective of facilitating the access of the poor to credit.

Visit www.smallindustryindia.com to learn about the institutions supporting small-scale industries in India.

The small industry sector is required to gear up to face the challenges of liberalisation and globalisation. The EDII in 1984 initiated performance improvement programmes in anticipation of the need for management strategy and growth-oriented awareness and competencies. These programmes focus on functional management inputs and strategic techniques, thereby channelising entrepre-neurial competencies to rejuvenate enter-prises.

The institute conceptualises and designs several strategic programmes through innovative training techniques and updated infor-mation and documentation. It regularly organises trainers' meets of ED organisations to facilitate experience sharing.

EDII has supported the creation of centres for entrepreneurship development and institutes of entrepreneurship development in various States to achieve institutionalisation of ED activities.

DISCUSSION FORUM

- Give an overall view of support agencies and specialised services for SSI.
- Discuss in small groups the Central level institutions supporting SSIs in India.

STATE LEVEL INSTITUTIONS

1. Directorate of Industries (DIs)

At the State level, the Commissioner/Director of Industries implements policies for the promotion and development of small-scale, cottage, medium-and large-scale industries. The Central policies for the SSI sector serve as guidelines but each State evolves its own policy and package of incentives. The Commissioner/Director of Industries in all the States/UTs, oversee the activities of field offices, that is, the District Industries Centres (DICs) at the district level.

2. District Industries Centres (DICs)

In order to extend the promotion of small-scale and cottage industries beyond big cities and State capitals to the district headquarters, the DIC programme was initiated in May 1978, as a centrally sponsored scheme with the objective of developing small, tiny and cottage sector industries in the country. DICs were also established with the aim of generating greater employment opportunities especially in the rural and backward areas in the country. These centres provide support facilities/concessions/ services in widely dispersed rural areas and other small towns. There were 430 centrally approved DICs, which covered almost all the districts of the country (except the metropolitan cities) at the time of the withdrawal of the Central sponsorship in 1993–94. At present, DICs operate under respective State budgetary provisions.

DICs extend services of the following nature.

- Economic investigation of local resources
- Supply of machinery and equipment
- Provision of raw material
- Arrangement for credit facilities
- Marketing
- Quality inputs
- Consultancy and extension services.

3. State Financial Corporations (SFCs)

State Financial Corporations, established under the SFCs Act, 1951, play an important role in the development of small and medium enterprises. The main objectives of SFCs are to finance and promote small and medium enterprises in their respective States for achieving balanced regional growth, catalyse investment, generate employment and widen the ownership base of industry. At present, there are 18 SFCs of which one was set up under the SFCs Act, while Tamil Nadu Industrial and Investment Corporation (TNIIC) Ltd. was set up under the Companies Act.

Financial assistance to small and medium enterprises is provided by way of term loans, direct subscription to equity/debentures, guarantees, discounting of bills of exchange, and seed capital assistance. SFCs operate a number of schemes of refinance of IDBI and SIDBI and also extend equity type assistance. SFCs have tailor-made schemes for artisans and special target groups such as SC/ST, women, ex-servicemen, physically challenged and also provide financial assistance for small road transport operators, hotels, tourism-related activities, hospitals, nursing homes, and so on. Under the Single Window Scheme of SIDBI, SFCs have also been extending working capital along with term loans to mitigate the difficulties faced by SSIs in obtaining working capital limits on time. Details of the financial assistance extended by SFCs are furnished in Chapter 5.

4. State Industrial Development/Investment Corporation (SIDCs/SIICs)

SIDCs/SIICs, set up under the Companies Act, 1956, as wholly owned undertakings of the State governments, act as catalysts for industrial development in their respective States. SIDCs play an important role by developing land providing industrial infrastructural facilities in the form of ready made factory sheds and/or developed plots together with facilities like roads, power, water supply, drainage, and other amenities. Set up primarily for providing assistance to medium-and large-scale industries, SIDCs/SIICs also extend assistance to the small-scale sector by way of term loans, subscription to equity and promotional services. Presently, there are 28 SIDCs in the country, of which 11 also function as SFCs and are therefore, termed Twin-Function IDCs.

5. State Small Industrial Development Corporations (SSIDCs)

SSIDCs, established under the Companies Act, 1956, as State government undertakings, cater to the needs of the small, tiny and village industries in their respective State/Union Territory. Being operationally flexible, SSIDCs undertake a variety of activities for the benefits of the SSI sector. Some of the important activities undertaken by SSIDCs include

- procurement and distribution of scarce raw materials;
- supply of machinery to SSI units on hire-purchase basis;
- assistance for marketing of products;
- construction of industrial estates, provision of allied infrastructure facilities and their maintenance;
- extending seed capital assistance on behalf of State government; and
- providing management assistance to production units.

Box 4.3 Other State-level Agencies that Extend Facilities for SSI Promotion

- State Infrastructure Development Corporations
- State Cooperative Banks
- Regional Rural Banks
- State Export Corporations
- Agro Industries Corporations
- Handloom and Handicrafts Corporations

DISCUSSION FORUM

- Discuss the State level institutions supporting SSIs in India.

OTHER AGENCIES

1. National Bank for Agricultural and Rural Development (NABARD)

NABARD was set up in July 1982 to provide refinance assistance to State Cooperative Banks, Regional Rural Banks, and other approved institutions for all kinds of production and investment credit to small-scale industries, artisans, cottage and village industries, handicrafts, and other allied activities. NABARD also helps SSI entrepreneurs to get loan for setting up small-scale industries in any part of the country.

2. Housing and Urban Development Corporation Ltd. (HUDCO)

HUDCO, as a wholly owned company of the Government of India, was incorporated in April 1970 as a private limited company and subsequently, converted into a public limited company in 1986. Though HUDCO's primary objective is to provide assistance for urban, social sector infrastructure, and the creation of housing facility, of late, the Corporation has undertaken activities to create infrastructure for the SSI sector. HUDCO also extends assistance for the promotion of building material industries, besides imparting consulfancy, training and technical assistance in related matters.

3. Technical Consultancy Organisations (TCOs)

TCOs were set up by the all-India financial institutions during the 1970s and 1980s (in association with State-level financial/development institutions and commercial banks) to cater to the consultancy needs of small and medium industries and new entrepreneurs.

TCOs provide a total package of consultancy services to small-and medium-scale enterprises, individual entrepreneurs, government departments and agencies, various State-level institutions, commercial banks, and other institutions for activities relating to industrial development and financing. Though the initial thrust of the TCOs was focused on pre-investment studies, over the years they have diversified their services to include

- preparing project profiles and feasibility studies;
- undertaking industrial potential surveys;
- indentifying of potential entrepreneurs and provision of technical and management assistance to them;
- undertaking market research and surveys for specific products;

- carrying out energy audit and energy conservation assignments;
- project supervision and, wherever necessary, rendering technical and administrative assistance;
- taking up assignments on a turnkey basis;
- undertaking export consultancy for export-oriented projects based on modern technology;
- offering management consultancy services especially for diagnostic study of sick units or for improvement in existing units and their rehabilitation programmes; and
- conducting entrepreneurship development programmes and skill upgradation programmes.

4. Non-governmental Organisations (NGOs)

Besides the Central and State governments and autonomous bodies, there has been an emergence of NGOs in different States to provide financial assistance, information, training, marketing support, legal advice, and so on to SSIs. The 1991 SSI policy of the Government of India favoured assistance to SSIs through NGOs. A few training programmes for unemployed youth to help set up industries under the PMRY, have been assigned by State governments to some NGOs. In the present scenario, the role of NGOs is assuming importance for assistance to entrepreneurs, particularly under micro-financing activities.

Sub-contract Exchanges Set up By NGOs

Under the programme of ancillary development, sub-contracting exchanges have been set up.

A sub-contracting exchange is a store house of data with regard to the capacities of the small-scale units in terms of products manufactured/services rendered, idle capacities available on particular processes/machines on the one hand and on the other storing data with regard to the requirements of the buyers, which could be product/components/sub-assemblies/services. The exchange also stores data about the specifications, class of accuracy, quantities, and so on in the above cases. The main objectives of these sub-contracting exchanges are as follows.

1. To register capacities of manufacturing or services available with the small-scale and tiny units
2. The collection, analysis, storage and organisation for rapid retrieval of information and data on the existing production capacities and capabilities of small-scale enterprises
3. To obtain details of items required regularly by other large units, which can be manufactured in the small-scale sector
4. Assistance to potential ancillaries in organising potential clusters and associations and in negotiating agreements with parent firms
5. To obtain details of items regularly required by other large undertakings, which could be manufactured in the small-scale sector

6. To match the requirement of large undertakings with the spare capacity available with SSI units
7. To arrange buyer-seller meets/vendor development programmes to display the items/products required by large undertakings/organisations and to discuss specifications and other requirements with the small-scale unit participants at such meets
8. To set up a data bank to provide the necessary information to SSI units, large industries, government agencies and others
9. To assist in developing the export promotion in this area
10. To conduct programmes which will be helpful to SSI units in promoting their products.

The exchange is, therefore, in a position to provide sufficient information to vendees to access details of facilities available with the sub-contractors who could meet their requirements. On the other hand, it also help to provide information to sub-contractors/vendors about vendees who are looking for outsourcing.

Following the announcement of the liberalised policy package in 1991, a scheme for the setting up of SCXs backed by Industry Associations/NGOs was also launched. Under this particular scheme, financial assistance up to Rs 4.7 lakh is given to set up sub-contracting exchanges in various parts of the country to provide impetus to outsourcing.

Launching of Scheme

In order to provide marketing support to small-scale industries, initially two SCXs were set up in 1970 in SISIs. The plan scheme for setting up SCXs was taken up in 1974–75. The scheme was extended in 1995 for providing financial assistance to industry associations/NGOs for setting up SCXs.

Setting up of SCXs by Industrial Associations

The Government of India operates the scheme to assist industrial associations/NGOs in setting up sub-contracting exchanges throughout the country. NGOs/industry associations having suitable building and other infrastructure are required to prepare a project profile of the proposal giving details about their operation, member industries in nearby areas, and so on. The proposals are to be sent to office of *DC(SSI), Nirman Bhawan,* duly recommended by the respective State Government and the Director of Small Industries Institute of the respective region.

Quantum of Assistance Provided

Industry associations/NGOs at the national/State/regional level are provided with a one-time grant upto Rs 4.7 lakh for procurement of hardware such as plain paper copier, telephone, fax machine, computers, furniture, binding and cutting machine, and so on. The grant is paid on a reimbursement basis by the DC (SSI), Ministry of SSI, Government of India. To ensure that these exchanges become fully operational from the beginning, the Government of India, under the scheme provides a matching grant to these exchanges on reducing basis at 50 per cent, 30 per cent and 10 per cent of the running expenses, not exceeding Rs 1.25, 0.75, and 0.25 lakh per year respectively during the initial three years, subject to a ceiling of Rs 1.57 lakh per SCX.

Sub-contract Exchanges for Ancillary Development

SCXs are centres for technical information, promotion and match making for industrial sub-contracting and ancillarisation between large and small enterprises, aiming at optimal utilisation of the manufacturing capacities of the affiliated industries.

While large enterprises are geared by their managerial and marketing strategies and mechanisms towards all forms of industrial collaboration with other enterprises, small enterprises are not equipped to promote such collaboration and thus deserve special attention and assistance in this area. It is evident that small enterprises, particularly in the prevailing context of global sourcing, are most in need of support services given their limited expertise in entering new markets and their generally higher risk aversion compared to large transnational corporations. Institutional support mechanisms are thus needed that will help them to acquire the necessary information on, and access to, upgraded technology, source of finance, new markets, foreign licenses and so on, and to establish long-term industrial cooperation agreements.

UNIDO provides technical assistance to developing countries for establishing and operating SCXs. It assists in setting up a roster of subcontractors, ancillaries and main contractors. UNIDO also advises governments on how to create a favourable environment and develop policies and programmes for the promotion of industrial subcontracting and ancillarisation using industrial legislation. In the framework of its programme, UNIDO has been surveying, designing, and developing standard instruments and methods for the development of industrial subcontracting and ancillarisation.

Up-to-date progress

Since 1995, a one-time grant upto Rs 5 lakh is being provided to NGOs/Associations under the scheme of the Establishment of SCXs for Ancillary Development for establishing exchanges. The training of SCX staff is undertaken by SIDO. 15 Exchanges were sanctioned assistance during 1995–96 of which 12 had become operational. During 1997–98, seven more SCXs were in the process of being established.

Under the scheme, 51 SCXs had been set up till March 2004 by industries association/NGOs in different parts of the country, with financial assistance from the office of DC (SSI), New Delhi. Apart from these, 35 SCXs are functioning in SISIs. Between 40 and 50 Vendor Development Programmes of national/State/regional level are conducted annually in different parts of the country. These programmes make satisfactory contributions to the objective of ancillary/vendor development in the country. Such programmes also contribute to enrich the data bank of the exchanges the view of both buyers as well as seller.

Box 4.4 NGOs/Associations with SCXs Established with the Financial Assistance from Government

- Karnataka Small-scale Industries Association, Bangalore
- Kerala State Small Industries Association, Trichur
- North Karnataka Sub-Contracting Exchange, Hubli
- United Cycle Parts Manufacturers Association, Ludhiana
- Ambattur Industrial Estate Mfrs. Association, Chennai
- Udyog Vihar Industries Association, Gurgaon
- Small Industries Development Council, Thiruvananthapuram
- PHD Chamber of Commerce and Industry, New Delhi
- Maharashtra Industrial Development Corporation, Nagpur
- Vidharbha Industries Association, Nagpur
- All Assam Small-scale Industries Association, Guwahati
- Eastern U.P. Chamber of Commerce and Industry, Allahabad
- Tamil Nadu Small and Tiny Industries Association, Chennai
- M.P. Laghu Udyog Sangh, Bhopal
- Kanara Small Industries Association, Mangalore

Testing Centres Set up by NGOs

Under the scheme initiated in 1994–95, a one-time grant-in-aid to industry associations (maximum limit of Rs 20 lakh) is provided on a matching contribution basis by the State government for the purchase of machinery and equipment needed for the setting up of testing centres. The purpose of the scheme is to establish counselling-cum-testing facilities for raw materials, components, and products (as per standards). The scheme is expected to help small-scale industries to obtain ISI certification and improve the quality of standardised products. The scheme has been modified to include the existing quality of marketing centres run by the State governments for the modernisation of facilities. The centres so assisted are located at Hubli, Gadag, Bangalore, Imphal, and Gangyal.

5. Small Industries Development Bank Of India (SIDBI)

Origin and objectives

The Small Industries Development Bank of India was established in April 1990 under an Act of Indian Parliament as the principal financial institution for

- promotion;
- financing;
- development of industry in the small-scale sector; and
- coordinating the functions of other institutions engaged in similar activities.

Since its inception, SIDBI has been assisting the entire spectrum of SSI sector including the tiny, village, and cottage industries through suitable schemes tailored to meet the requirement setting up new projects, expansion, diversification, modernisation, and rehabilitation of existing units.

Domain of service

The SSI sector is a vibrant and dynamic sector of the Indian economy. It presently occupies an important place and its contribution in terms of generation of employment, output, and exports is quite significant. The small-scale industries sector, including tiny units, comprises the domain of SIDBI's business. Besides, the projects in the services sector with total cost upto Rs 25 crore are also taken within the area of SIDBI's operations. The bank also finances industrial infrastructure projects for the development of the SSI sector.

Channels of assistance

SIDBI's financial assistance to the small-scale sector has three major dimensions.

1. Indirect assistance to Primary Lending Institutions (PLIs)
2. Direct assistance to small units
3. Development and support services.

Indirect assistance: SIDBI's schemes of indirect assistance envisage credit to SSIs through a large network of 913 PLIs spread across the country, with a branch network of over 65,000. The assistance is provided by way of refinance, bills rediscounting, and resource support in the form of short-term loans/Line of Credit (LoC) in lieu of refinance, and so on.

Direct assistance: The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for small-scale industries. Direct assistance is provided under several tailor-made schemes through SIDBI's 41 regional/branch offices spread across the country.

Development and support services

The bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas.

- Enterprise promotion with emphasis on rural industrialisation
- Human resource development to suit the SSI sector needs
- Technology upgradation
- Quality and environment management
- Marketing and promotion
- Information dissemination

EDPs of SIDBI

The aim of SIDBI's EDPs is to build and nurture a reservoir of entrepreneurs. Such EDPs are conducted through specialised agencies in Entrepreneurship Development Institute of India, Institutes of Entrepreneurship Development (IEDs), and Centre for

Entrepreneurship Development (CEDs), Technical Consultancy Organisations (TCOs) and Non-governmental Organisations (NGOs).

Management deficiency and a low level of skill and technology have been some of the major weaknesses of small industries. SIDBI is constantly endeavouring to address these problems by bringing reputed management and technical institutions close to small-scale industries and arranging specially designed programmes, viz. Small Industries Management Assistants Programme (SIMAP) and Skill-cum-Technology Upgradation Programme (STUP). The objective of SIMAP is to develop a cadre of industrial managers specifically trained to assist SSI entrepreneurs in their multiple responsibilities. STUP is structured to improve the performance of the existing SSI units by developing/strengthening managerial skills and the technical competence of the entrepreneurs and senior executives of the small enterprises.

6. Scheme of Micro Finance Programme

Creating self-employment opportunities is one way of tackling poverty and solving the problems of unemployment. There are over 24 crore people below the poverty line in the country. The Scheme of Micro-Credit has been found to be an effective instrument for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them creditworthy. The total requirement of micro-credit in the country has been assessed at Rs 50,000 crore. Micro-credit programme works through NGOs/SHGs and the merit lies in weekly monitoring and refund of instalments. The rate of recovery under SIDBI's micro-credit programme is as high as 98 per cent. Though there are various departments and organisations implementing micro-credit schemes in the areas of activity falling under their purview, their total reach is very low, that is, not more than Rs 5,000 crore. Thus the existing programmes cater to only 5 to 10 per cent of the total requirements and there is considerable scope for expansion of such programmes.

In India, micro-credit programmes are run primarily by NABARD in the field of agriculture and SIDBI in the field of industry, service and business (ISB). The success of the micro-credit programme lies in diversification of services. The Micro-Finance Scheme of SIDBI has been under operation since January 1999 with a corpus of Rs 100 crore and a network of about 190 capacity-assessed, rated MFIs/NGOs. Under the programme, a total amount of Rs 191 crore had been sanctioned upto December 31, 2003, benefiting over 9 lakh persons. Under the programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. But they find it difficult to manage the needed equity support because of their poor financial condition. The problem has aggravated due to declining interest rate on deposits. The Office of the Development Commissioner (Small-Scale Industries) under the Ministry of SSI is launching a new scheme of Micro Finance Programme to overcome the constraints in the existing scheme of SIDBI, the reach of which is currently very low. It is felt that the government's role can be critical in expanding the reach of the scheme, ensuring long-term sustainability of NGOs/MFIs and development of intermediaries for identification of viable projects.

Salient features of Micro-Finance programme

Under the Micro-Finance Programme, the following activities would be undertaken.

Arranging fixed deposits for MFIs/NGOs: SIDBI is already running a Micro-Credit Programme with a network of capacity-assessed, rated MFIs/NGOs. The Micro-Finance Programme has been tied-up with SIDBI to contribute towards security deposits required from the MFIs/NGOs to get loans from SIDBI as per details given below.

i. The Government of India will provide funds for the Micro-Finance Programme to SIDBI, which shall be called the 'Portfolio Risk Fund' (PRF). This fund would be used for security deposit requirements of the loan amount from the MFIs/NGOs and to meet the cost of interest loss. At present, SIDBI takes a fixed deposit equal to 10 per cent of the loan amount. The share of MFIs/NGOs would be 2.5 per cent of the loan amount (that is, 25 per cent of security deposit) and balance 7.5 per cent (that is, 75 per cent of security deposit) would be adjusted from the funds provided by the Government of India. The MFIs/NGOs may avail the loan from the SIDBI for further on lending on the support of the security deposit.

ii. The government would provide the needed fund in four years of the Tenth Plan and release the fund on a half-yearly basis based on demands for security deposit. By contributing an amount of Rs 6 crore during the Tenth Plan under the Micro-Finance Programme, SIDBI can provide a loan of Rs 80 crore to MFIs/NGOs. This would benefit approximately 1.60 lakh persons, assuming an average loan of Rs 5,000 per beneficiary.

iii. The SIDBI will pay interest to the government on the fixed deposit made available by the government at the same rate as allowed to NGOs. Other terms and conditions will be fixed mutually by SIDBI and the Government of India.

iv. The recovery of loan/interest will be the sole responsibility of SIDBI. In case of non-recovery of loan, SIDBI would first adjust the fixed deposit and interest accrued thereon for 2.5 per cent security deposit of the loan pledged by the MFIs/NGOs and thereafter adjust 7.5 per cent security deposit of the loan amount provided by the Government of India and the interest accrued thereon with the approval of Committee of the Government of India.

v. After full recovery of loan from the MFIs/NGOs, the 7.5 per cent security deposit of the loan amount provided by the Government of India and the interest accrued thereon would be rotated further as a security deposit for MFIs/NGOs with the approval of Committee of the Government of India or the same will be returned to the government.

vi. Since SIDBI is already running the Micro-Credit Programme, it will monitor the scheme. SIDBI would also provide the monthly/ quarterly progress report along with details of beneficiaries, utilisation of funds provided by the Government of India and loans sanctioned/utilised by the beneficiaries.

vii. The activities covered under the scheme are manufacturing, service sector, and non-farming activities.

Training and studies on Micro-Finance Programme: The Government of India would help SIDBI in meeting the training needs of NGOs, SHGs, intermediaries, and entrepreneurs, and also in enhancing awareness about the programme. This task would be performed through National Level Entrepreneurship Development Institutes (EDIs) and Small Industries Service Institutes (SISIs). Research studies would also be arranged through reputed agencies.

Institution building for 'intermediaries' for identification of viable projects: The Government of India would help in institution building through identification and development of 'intermediary organisations', which would help the NGOs/SHGs in identification of product, preparation of project report, working out forward and backward linkages, and fixing marketing/technology tie-ups. The SISIs would help in the identification of such intermediaries in different areas.

7. Export Promotion Councils (EPCs)

In order to overcome problems in the marketing of SSI products in the overseas markets, it is considered desirable to adopt a consortium approach. The export promotion councils for different industries make efforts to promote the exports of their member units through direct marketing, developing vendor relations, opening respective sales outlets abroad, and so on, as a collective export marketing strategy. The activities of different councils are targeted to increase the exports from the sector.

SSI units get access to export-related services from the councils. Some of the councils obtain bulk purchase orders from foreign buyers and distribute these among member units for supply to the council for onward export. This process ensures export orders to every member unit and thereby facilitates the timely delivery of goods abroad. For such a service, the councils charge a nominal fee from member units. The EPCs also offer a package of other services to existing as well as new members by providing information on the developments taking place in the international arena. They keep the members informed of the changes with regard to export-import policies and procedures, customs and excise duty rules, and so on. Besides, trade enquiries, tender notices are circulated among members in order to assist them to avail of business opportunities for augmenting overall exports.

INDUSTRY ASSOCIATIONS

In addition to the Central and State government agencies, industry associations also impart institutional support to the small-scale sector. Industry associations provide SSIs with a common platform to raise industry-related issues and to initiate cooperative efforts for promoting the sector. The government's policies, in recent years, have stressed the increasing role of the industry associations in setting up common facilities and other cooperative ventures in areas of technology, marketing and other support services. Some of the major associations and the services provided by them are given below.

1. Confederation of Indian Industry (CII)

In 1895, five British engineering firms formed the Engineering and Iron Trade Association (EITA). EITA was renamed the Indian Engineering Association (IEA) in 1912. With the Swadeshi Movement gaining momentum, the Engineering Association of India (EAI) was formed in 1942 by a group of indigenous entrepreneurs. IEA and EAI were merged in 1974 to form the Association of Indian Engineering Industry (AIEI). The 1980s ushered in an era of competiveness and liberalisation and AIEI was renamed the Confederation of Engineering Industry (CEI). In 1992, the name was again changed to the Confederation of Indian Industry (CII), which reflected the extension of the confederation's coverage.

The Confederation of Indian Industry works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes. CII is a non-government, not-for-profit, industry-led and industry-managed organisation, playing a proactive role in India's development process. It is India's premier business association, with a direct membership of over 4,800 companies from the private as well as public sectors, including SMEs and MNCs, and indirect membership of over 50,000 companies from 253 national and regional sectoral associations.

A facilitator, CII catalyses change by working closely with the government on policy issues, enhancing efficiency and competitiveness, and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry identify and execute corporate citizenship programmes.

With 41 offices in India, 15 overseas in Afghanistan, Australia, Austria, Belgium, China, France, Japan, Israel, Italy, Malaysia, Russia, Singapore, South Africa, UK, and USA, and institutional partnerships with 216 counterpart organisations in 94 countries, CII serves as a reference point for Indian Industry and the international business community.

The main objectives of CII are to provide information, apart from advisory, consultative, and representative services to industry and the government. CII is represented on major policy-making bodies concerned with the industry. It also organises industry exhibitions, specialised sectoral trade fairs, and the India Engineering Trade Fair. Apart from these, CII also plays an important role in promoting international industrial cooperation.

2. Federation of Indian Chambers of Commerce and Industry (FICCI)

Established in 1927, FICCI represents India's industry and trade with a network of over 400 chambers and associations. It has business interaction and information exchange arrangements with apex business bodies in 65 countries. FICCI is closely involved with Central and State governments to suggest and mould business-friendly policies. FICCI is the nodal organisation in India for the International Chamber of Commerce (ICC), Confederation of Asia-Pacific Chamber of Commerce and

Industry (CACCI), and SAARC Chamber of Commerce and Industry. It has established the Indian Ocean Rim Business Centre as part of the Indian Ocean Rim Initiative. As part of international business promotion activities, the chamber has set up joint business councils, which provide a platform for promoting trade, investment and technology flows.

3. PHD Chamber of Commerce and Industry (PHDCCI)

Established in 1905, PHDCCI represents northern India, serving trade and industry in eight States and the Union Territory of Chandigarh. The chamber provides a common platform for meetings of representatives of trade, business, and industry with senior government officials both at the State and Central government level. It operates through expert committees and task forces where members representing various interests pool knowledge and experience for the overall benefit of the business community.

In November 1995, Small Industries and Business (SIB) Help Line was launched by the PHDCCI with a view to assisting and supporting the small-scale sector. The SIB Help Line has 289 SSI units and 11 association members and provides assistance by way of information to entrepreneurs and by acting as a forum for interaction with banks, FIs, and other bodies connected with the small-scale sector. The chamber also organises commercial training programmes in cooperation with the Konrad–Adenauer Foundation (KAF) of Germany.

4. Associated Chamber of Commerce and Industry of India (ASSOCHAM)

Established in 1920, ASSOCHAM represents a cross-section of business, industry, services, and professions located in all regions of the country. Among these are constituent chambers and associations comprising their members in different segments of business and industry. The current thrust of ASSOCHAM is on "infrastructure for accelerating economic growth". Productivity, quality, and competitiveness are the central agenda of ASSOCHAM's professional services.

5. Federation of Indian Exporters Organisation (FIEO)

Set up by the Ministry of Commerce, Government of India, in October 1965, FIEO represents the Indian entrepreneurs' spirit of enterprise in the global market. FIEO has kept pace with the country's evolving economic and trade policies, and provided supporting thrust to India's expanding international trade. As an apex body of Indian exports promotion organisations, FIEO works as a partner in the Indian export promotion process.

FIEO's member organisations, comprising largely of export houses, trading houses, star trading houses, super star trading houses and consultancy exporting firms, contribute 72 per cent to the total exports of India. Exports by FIEO members comprise a wide range of consultancy services, manufactured products (including those of the SSIs), and so on. The activities of its members also include manufacturing, international trading, investment, and joint ventures abroad.

FIEO forges strong links with counterpart organisations in several countries, as well as international agencies to enable direct communication and interaction between India and world businessmen. It is registered with UNCTAD as a national non-governmental organisation, and has access to information/data originating from international organisations. In addition, it has bilateral arrangements for exchange of information as well as for liaisoning with several overseas chambers of commerce and trade and industry associations.

6. World Association for Small and Medium Enterprises (WASME)

The World Association for Small and Medium Enterprises (WASME), founded in 1980, has emerged as the largest professionally managed global non-governmental organisation with members and associates including national governments, chambers of commerce and industry, small business authorities and associations, banks and financial institutions, and training and consultancy agencies in 112 countries serving micro, small and medium enterprises. WASME is managed by a competent secretariat and works out of its own building at Noida (close to New Delhi), supported by professionals in information services, economic research, marketing, technology transfer, and other specialised subjects. It is served by permanent representatives in Washington DC, Vienna, Paris, Bangkok, Geneva, Brussels, and Kuala Lumpur.

WASME is the only international non-governmental organisation of SMEs registered under the Societies Act, Delhi, enjoying consultative status with the Economic and Social Council of the United Nations, International Labour Organisation, United Nations Conference on Trade and Development, United Nations Education, Scientific and Cultural Organisation, United Nations Industrial Development Organisation, and World Intellectual Property Organisation.

It has a governing body comprising representatives drawn from chambers of commerce, and banks and financial institutions, Small Business Development Corporations, Department of Small Industries in various governments and so on. WASME organises international SME convention annually. Among other activities, WASME's focus is on ensuring business cooperation amongst enterprises of the developing countries by facilitating technology transfer, training, and marketing. The facilities provided by WASME include (i) information on promotion of SMEs in member countries, (ii) providing opportunities for marketing of products, (iii) facilitating contacts with sources offering latest technologies, equipment and services for SMEs, and (iv) identification of facilities for training of entrepreneurs, managers, and production personnel.

Some of the thrust areas of WASME activities include technology transfer, training, maintaining a roster of experts consultants, organising or sponsoring seminars/ workshops/ conferences, acting as a clearing house of information relating to SMEs, undertaking special studies and research on areas of relevance to SMEs and strengthening or assisting in the setting up of associations of SMEs and/or women entrepreneurs.

7. Federation of Associations of Small Industries of India (FASII)

The Federation of Associations of Small Industries of India, set up in 1959, represents associations of small industries and individual SSI units. The main objectives of FASII are (i) to promote the development of small-scale, tiny and cottage industries, (ii) to cooperate with industrial, business, educational, and research institutions in collecting and exchanging information pertaining to the small industries sector, (iii) to undertake professional, technical, and management consultation services, (iv) to undertake studies, surveys, and research assignments, (v) to further the cause of small industries by interacting with Union and State governments and other bodies, (vi) to establish and operate trade centres, display centres, sub-contract exchanges, and other promotional institutions for the benefit of the small-scale sector, and (vii) to establish test centres, laboratories and common facility centres for the SSI sector.

In this direction, the federation offers services such as organising meetings/conferences, liaisoning with policy makers, analysis and interpretation of policies, and taking up member's difficulties with the concerned department/organisation for redressal.

8. Laghu Udyog Bharati (LUB)

Laghu Udyog Bharati was established in 1995. The main objective of the organisation is to promote and safeguard the interest of the small-scale industry. Entrepreneurial training, support for technology upgradation, and marketing are within the extended scope of its activities. Laghu Udyog Bharati has its representation on the National and State level government bodies connected with SSIs.

9. Indian Council of Small Industries (ICSI)

The Indian Council of Small Industries, founded in 1979 represents around 1,500 associations of the decentralised sector. The major objectives of the council include extending help to small, tiny, and cottage enterprises and artisans. In the process, the ICSI aims at enhancing the contribution of the SSI sector in the overall growth of the Indian economy. The major functions of ICSI are consultancy, information dissemination, entrepreneurship development, training, research, and so on. ICSI represents the cause of its member enterprises by giving suggestions for appropriate policy making. The council follows the consortium approach to provide market-related services and extends facilities relating to the testing centre and quality control outlets.

10. Council of Scientific and Industrial Research (CSIR)

CSIR has set up a large number of Regional Research Laboratories all over the country, which are developing new processes for the manufacture of industrial products on a commercial scale. These agencies act as pillars of support for the promotion and growth of the small-scale industries in India.

11. Venture Capital

Venture capital has evolved as a concept that not only deals with providing investment capital to relatively untried ideas but also participates in the management decision-making process, thus helping entrepreneurial teams with strategic inputs. Since providing finance to untried ideas is fraught with the danger of significant erosion of capital, and in some cases may cause a total loss, the expectation of venture capitalists would be a return of 40 per cent from their investments. Venture capitalists are considered as experts in identifying business ideas with high returns.

When considering an investment, venture capitalists carefully screen the technical and business merits of the proposed company much like a traditional financial institution or a bank. That is where the similarity ends. Venture capitalists, however, only invest in a small percentage of the business proposals they review. They also actively work with the company's management, given their expertise, and contacts, and at strategy formulation as they generally have a long-term perspective in mind.

Evolution of Venture Capital: The concept of venture capital originated in the US in 1946. A number of new technologies, which could be commercially exploited, had come up after World War II and the funds given for such ventures were called venture capital investment. Though the venture capital movement has been in existence for more than three decades in India, it has only recently gained momentum. New ventures found it difficult to get funding from the banks as they did not have any collateral to offer. The venture capital industry thus started in India to fund such enterprises. Indian venture capital industry is one of the predominant players among South Asian countries. It is not one of those countries, which offers lower cost production alternatives, but is a hi-tech and global outsourcing centre. New funds have opened their shop here in India and are continuing to bring in more and more funds.

When the Government of India decided to start the venture capital industry in India in 1970, a committee headed by R.S. Bhat, the first chairman of UTI, was set up to examine the issue. At that time, there used to be a tax on technology transfer. The tax amounting to more than Rs 1000 crore was given to the Industrial Development Bank of India (IDBI) for starting venture capital investment. At the same time, ICICI also started venture capital investment. The first recipient of venture capital funds was Kale Consultants in Mumbai, which got a sum of Rs 30 lakh from ICICI.

In 1988, for the first time, the government announced guidelines for the industry in Parliament. Thereafter, the World Bank came in. It selected six institutions to start the venture capital industry. Gujarat Industrial Investment Corporation (GIIC) was one of them and Gujarat Venture Finance Limited (GVFL) was set up at the instance of the World Bank through GIIC with the condition that it would be an autonomous, professionally managed company. Later, it was realised that the concept of venture capital funding needed to be institutionalised and regulated. This type of funding required innovative skills to assess the proposal and monitor the progress of the fledging enterprise. In 1996, the Securities and Exchange Board of India (SEBI) formulated guidelines for venture capital funds for their operations in India.

This can be termed as the second phase in the growth of venture capital in India. The move liberated the industry from a number of bureaucratic hassles and paved the way for the entry of foreign funds into India. Increased competition brought with it greater access to capital and professional business practices from mature and established markets. The Indian Venture Capital Association (IVCA), set up in 1992, is the nodal centre for all venture activity in the country.

The venture capitalists would generally do the following activities.

- Fund first-generation technology-driven (or knowledge-driven) entrepreneurs
- Finance new and rapidly growing companies
- Purchase equity securities
- Assist in the development of new products or services
- Add value to the company through active participation
- Take higher risks while expecting higher rewards
- Have a long-term orientation/perspective.

The Venture capitalist may ask the following questions.

- What is your product?
- Who is the customer?
- Who will sell it?
- How many people will buy it?
- How much will it cost to design and build?
- What will be the price of the product?
- When will you break even?

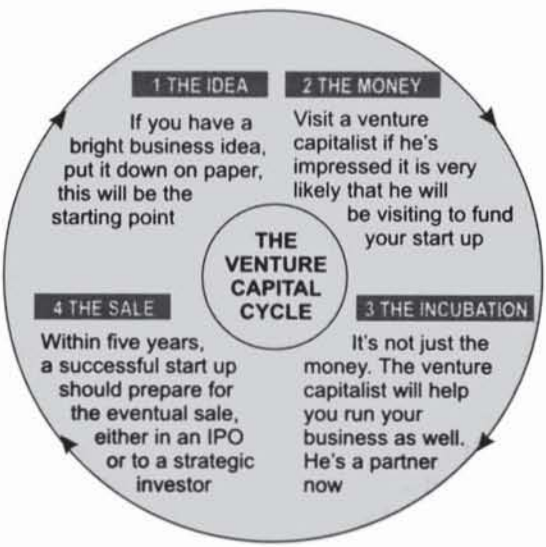

Figure 4.3 ■ The Venture Capital Cycle

Remember that a venture capital industry is like an elevator pitch. You should be able to explain your business to somebody in one elevator ride. The venture capital cycle is shown in Fig. 4.3.

Stages in Venture Financing

1. Early stage financing
   - Seed financing for supporting a concept or idea
   - R & D financing for product development
   - Start up capital for initial production and marketing
2. Expansion financing
   - First-stage financing for full-scale production and marketing
   - Second-stage financing for working capital and initial expansion

3. Acquisition/buyout financing
   - Bridge financing for facilitating public issue
   - Acquisition financing for acquiring another firm for further growth
   - Management buyout financing for enabling group to acquire firm or part of its business
   - Turnaround financing for turning around a sick unit

Value-added Services to Venture Capitalists: Venture capitalists provide many services to the assisted ventures. For example, the international Venture Capital Investment Corporation provides the following services to its clients.

- Acts as a sounding board for the investee company's planning and decision making
- Helps in building networks of contacts for the investee company
- Provides advice and assistance in a highly professional and competent way in managerial and technical fields
- Helps in raising subsequent finances from banks and others or by organising initial public offerings (IPOs).

Venture capitalists generally keep in constant touch with the assisted companies. They also monitor their performance and activities on a regular basis. They become more active if they find that the entrepreneur is not able to perform satisfactorily, or when the venture has reached the growth stage and needs more funds. Venture capitalists are an important source of managerial resource and they provide competence, support, and access to networks normally not easily available to the investee companies. Venture capitalists also help the investee companies in strategic thinking and analysis of economic data and trends. They remain active on the board of the investee companies and thus complement the management team.

Angels: Angels are important links in the entire process of venture capital funding. This is because they usually support a fledging enterprise at a very early stage—sometime even before commercialisation of the product or service offering. Typically, an angel is an experienced, industry-bred individual with a high net worth.

Angels provide funding by "first round" financing for risky investments—risky because they are a young/start-up company or because their financial track record is unstable. This venture capital financing is typically used to prepare the company for "second round" financing in the form of an initial public offering. For example, a company may need "first round" financing to develop a new product line, or make a strategic acquisition to achieve certain levels of growth and stability.

It is important to choose the right angel because they will be present on the Board of Directors, often for the entire duration of their investment and will assist in getting "second round" financing. When choosing an angel, it is imperative to consider their experience in the relevant industry, reputation, qualification, and track record. Angels are people with less money orientation, but who play an active role in making an early stage company work. They generally have enough hands-on experience and are experts in their field of interest. They understand the field from an operational perspective; an entrepreneur would need this kind of expertise besides the money to make things happen. Angels have both. A case study of INDIACO, based at Pune, which operates a series of incubating innovation clusters in India, is given in Box 4.5.

Business Incubator: Venture capital companies are said to promote new ideas, innovative projects, and concepts, and are supposed to be more enthusiastic than a commercial bank. The experiences of venture capitalists and venture capital companies indicate that the proposals that are rejected are in excess of 90 to 95 per cent. In this scenario, where new projects or innovative ideas or concepts have a high rejection rate, the concept of creating incubation facilities which are aimed at facilitating the success and survival and, later on, the growth of such enterprises is considered a necessity. The business incubator concept is more applicable to project and product ideas that have a high degree of uncertainty with regard to success. The incubator provides all the infrastructure facilities and the entrepreneur takes care of

Box 4.5 INDIACO: Case Study

INDIACO is a private equity investment holding company that is based in Pune. It invests in hi-tech companies that can access global market. INDIACO's investment strategy hinges on its ability to invest value-added capital through providing early stage, hi-tech start up ventures with operational support and infrastructure, management support, coaching, and access to a network of service providers, vendors, customers, and next stage investment capital resources.

INDIACO has built its core competencies in supporting web-based e-services, enterprise software, and hardware products, as well as in bio-medical devices, drug development and delivery, bioinformatics, nanotechnology and other technology-based growth areas where intellectual property is a key measure of competitive advantage.

INDIACO is a symbiotic constellation of start-ups, R & D organisations, investors, and service providers to the hi-tech sector. Its mission is to assist entrepreneurs plan, prepare prototypes, market, launch innovative products and services, and thereby build successful companies.

INDIACO functions as a "venture creation engine" in addition to being a resource centre and incubator for high-tech startups and early stage companies, INDIACO helps translate lab research into consumer products and provides infrastructure and network to support entrepreneurs. It brings together entrepreneurs and technology to build companies and commercial products, and provides a mechanism for major corporations and government laboratories to spin out technology.

INDIACO, operates a series of incubation innovation clusters (INDIACO Centres) that help entrepreneurs reduce their costs, exposing them to a network of industry and academic contacts, providing advisory support, and a structured business growth roadmap. Companies once admitted into the INDIACO receive a range of services that include

- mentoring and coaching;
- assistance in raising the next round of capital from a network of angel investors and venture capital firms;
- administrative and operational support (legal, IT, HR, accounting);
- office space and infrastructure; and
- advisory services from INDIACO's network of advisors.

> Visit www.indiaco.com, www.sidbi.com, www.techno-preneur-net, www.ficci.com, www.ciionline.org, www.wasmeinfo.org

the main business of developing a product and converting it into a sustainable commercial venture.

There are different models of incubators. A non-business organisation incubator or an academic institution incubator are not for profit. They have an objective of promoting an enterprise and facilitating the implementation of the process of creating an enterprise. The role of these incubators has been to create some kind of a forum whereby science and technology researchers as well as students and entrepreneurs come together to create an enterprise or create value out of their own efforts.

The other model of incubators is those supported by organisations like Microsoft, Infosys, Wipro, and Intel. They promote their own employees to spin off an idea, do the proofing, and go and attack the market. If the idea is successful, the company goes ahead and acquires it giving the founders a return on their innovation. There are certain venture capitalists that run incubators themselves. One of the biggest benefits of being a part of an incubator is that it insulates entrepreneur, from the word "environment", Entrepreneur can mainly concentrate on getting one's idea foolproof and establish the market network.

DISCUSSION FORUM

- List the various industry associations supporting small-scale sector in India.
- What is venture capital? Discuss various stages in venture financing.
- Explain the role of incubators in promoting new ventures.

SUMMARY

The institutional framework supporting Small Business Enterprises can be broadly classified into following categories: a. Central level Institutions/Agencies. b. State level Institutions/Agencies and Other Industry Associations and Non-Governmental Agencies.

The Central level Institutions/Agencies Supporting Small Business Enterprises in India are: Small Scale Industries (SSI) Board, Khadi and Village Industries Commission (KVIC), Small Industries Development Organisation (SIDO), National Small Industries Corporation Ltd. (NSIC), The National Science and Technology Entrepreneurship Development Board (NSTEDB): National Productivity Council (NPC), National Institute of Small Industry Extension and Training (NISIET), National Institute for Entrepreneurship and Small Business Development (NIESBUD), Indian Institute of Entrepreneurship (IIE), Entrepreneurship Development of Institute of India (EDI).

The various State level Institutions/Agencies supporting Small Business Enterprises in India are: Directorate of Industries (DI), District Industries Centres (DICs), State Financial Corporations (SFCs), State Industrial Development/Investment Corporations (SIDCs/SIICs), State Small Industrial Development Corporation (SSIDCs).

The various industry associations and agencies supporting Small Business Enterprises in India are: National Bank for Agricultural and Rural Development (NABARD), Housing and Urban Development Corporation Ltd. (HUDCO), Technical Consultancy Organisations (TCOs), Non-Governmental Organisations (NGOs), Small Industries Development Bank of India (SIDBI), Export Promotion Councils (EPCs), Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI), PHD Chamber of Commerce and Industry (PHDCCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM), Federation of Indian Exporters Organisation (FIEO), World Association for Small and Medium Enterprises (WASME), Federation of associations of Small Industries of India (FASII), , Laghu Udyog Bharati (LUB), Indian Council of Small Industries (ICSI). Council of Scientific and Industrial Research (CSIR), Venture Capital and Business Incubator.

KEY WORDS

- Small-scale Industries (SSI) Board
- Khadi and Village Industries Commission (KVIC)
- National Science and Technology Entrepreneurship Development Board (NSTEDB)
- National Productivity Council (NPC)
- National Institute of Small Industry Extension and Training (NISIET)
- National Institute for Entrepreneurship and Small Business Development (NIESBUD)
- Indian Institute of Entrepreneurship (IIE)
- Entrepreneurship Development of Institute of India (EDII)
- Directorate of Industries (DI)
- District Industries Centres (DICs),
- State Financial Corporations (SFCs)
- State Industrial Development/Investment Corporations (SIDCs/SIICs)
- State Small Industrial Development Corporation (SSIDCs)
- National Bank for Agricultural and Rural Development (NABARD)
- Housing and Urban Development Corporation Ltd. (HUDCO)
- Technical Consultancy Organisations (TCOs)
- Small Industries Development Organisation (SIDO)
- National Small Industries Corporation Ltd. (NSIC)
- Non-governmental Organisations (NGOs)
- Small Industries Development Bank of India (SIDBI)
- Export Promotion Councils (EPCs)
- Confederation of Indian Industry (CII)
- Federation of Indian Chamber of Commerce and Industry (FICCI)
- PHD Chamber of Commerce and Industry (PHDCCI)
- Associated Chambers of Commerce and Industry of India (ASSOCHAM)
- Federation of Indian Exporters Organisation (FIEO)
- World Association for Small and Medium Enterprises (WASME)
- Federation of Associations of Small Industries of India (FASII)
- Laghu Udyog Bharati (LUB)
- Indian Council of Small Industries (ICSI)
- Council of Scientific and Industrial Research (CSIR)
- Venture capital
- Business Incubator

EXERCISES

Activity 1

In a small group visit the local District Industries Centre and then invite a joint director of local DIC; request him to address the class regarding the role of DIC in promoting small-scale industries in the region. Make the session interactive. Request your professor to lend his support for this activity.

Assignment 1

Study the incubator model of any of the organisations like Microsoft/Infosys/Wipro/Intel by visiting their respective websites and prepare a brief report of model of incubator not exceeding four A4 size pages with adequate margins and normal space between the paragraphs.

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Websites

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INDIACO is a private equity investment holding company based in Pune. It invests in hi-tech companies that can access global market.

2. *www.un.org.in*

Website of United Nations Industrial Development Organisation

3. *www.sidbi.com*

Website of the Small Industries Development Bank of India, the principal financial institution for promoting small-scale industries

4. *http://www.techno-preneur.net*

A web site aimed at assisting technopreneurs find technologies, projects, funding options and information about policy environment, incentive schemes and industrial infrastructure available in the country, covering both Central and State governments.

5. *www.ficci.com*

Official website of the Federation of Indian Chambers of Commerce and Industry

6. *www.ediindia.org*

Website of the autonomous and not-for-profit Entrepreneurship Development Institute of India, Ahmedabad, Gujarat

7. *www.ciionline.org*

Website of the Confederation on Indian Industry

8. *www.wasmeinfo.org*

Web site of the international non-governmental organisation of SMEs—World Association for Small and Medium Enterprises (WASME)

ANNEXURE 4.1

Institutional Support System in Karnataka State

- Karnataka Industries Areas Development Board (KIADB)
- Karnataka Council for Technological Upgradation (KCTU)
- Technical Consultancy Services Organisation of Karnataka (TECSOK)
- Centre for Entrepreneurship Development of Karnataka (CEDOK)
- Karnataka State Financial Corporation (KSFC)

Karnataka Industrial Areas Development Board (KIADB)

Rich in natural resources, Karnataka has a wealth of mineral resources, rivers, waterfalls, harbours, forests, and a moderate climate. All of these contribute to a thriving agriculture sector. An unprecedented technological expertise confirms Karnataka as a pioneer state in industry. Today, Karnataka, a state of industrial opportunity, has a record of unsurpassed industrialisation in the nation.

Since 1996, the Karnataka Industrial Areas Development Board (KIADB) has been at the helm of affairs, apportioning land for industries and gearing up facilities to carry out operations. The KIADB is a statutory board constituted under the Karnataka Industrial Areas Development Act of 1996. It was established with the prime objective of promoting and assisting in the rapid growth and development of industries in the industrial areas.

The KIADB now acquires and provides developed land suited for industrialisation, by drawing up well laid-out plots of varying sizes to suit different industries, with requisite infrastructure facilities. These basic facilities include roads, drainage, water supply, and power supply.

Amenities such as banks, post offices, telephone exchange, telecommunications, fire stations, police outposts, canteens, ESI dispensaries, bus depots, petrol bunks and so on, are also provided. The KIADB also plans to initiate the provision of common effluent treatment plants wherever necessary.

The KIADB has, so far, developed 68 industrial areas in almost all *taluks* of the State. Land, to an extent of about 39,297.87 acres, has been acquired and 21,987.30 acres had been developed in all the districts of the State up to the end of March 31, 1996. Developed industrial plots had been allotted to 7,882 units, comprising an extent of 14,356.45 acres in different industrial areas as at the end of March 31, 1996.

Procedure for Allotment of Land

Mode of Allotment: Application forms for the allotment of land may be obtained, on payment of Rs 54/ - from any of the following offices.

The Executive Member
KIADB, Bangalore

The General Manager
District Industries Centre of the concerned district

The Zonal Office of KIADB
At Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan, and Belgaum

Applications, duly filled, must be accompanied by

- a brief project report;
- details of the constitution of the company;
- provisional Registration Certificate;
- Eastern Money Deposit of Rs 500/- per acre or any part thereof, subject to a maximum of Rs 10, 000/-
    - (a) 20 per cent cost of the land in respect of industrial areas in Bangalore and Mangalore (Dakshina Kannada District);
    - (b) 15 per cent cost of the land in respect of industrial areas in Mysore, Belgaum, Hubli, and Dharwad districts; or
    - (c) 5 per cent cost of the land in respect of industrial areas in all other districts.

For allotment of land to small-scale industries in the all districts, other than Bangalore district, applications are made to the General Manager of the concerned District Industries Centre.

For allotment of land for small scale industries in the industrial areas located in Bangalore district, the application has to be submitted to the Executive Member, KIADB, No 14/3, II Floor, Rashtothana Parishat Building, Nrupathunga Road, Bangalore 560 002.

For medium-and large-scale units, approval has to be obtained from the State Level Single Window Agency for clearance of the project. Subsequent to clearance, the application for allotment of land has to be filed with the Bangalore office in case the allotment of land is in Bangalore district or to Zonal office of jurisdiction depending on the location of the industrial area. The prescribed form for obtaining the clearance of Single Window Agency can be obtained from the office of the Executive Director, Karnataka Udyog Mitra, 4th Floor, R.P. Building, Bangalore 2.

Applications for allotment of land in areas located in Bangalore district in case of SSI have to be directly submitted to the Executive Member, KIADB, with 20 per cent of the land cost, in addition to EMD and other details mentioned earlier.

On receipt of applications for all districts, other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned District Headquarters. And the district level allotment committee will take a decision on the allotment of land to the SSI units.

Similarly, on receipt of an application, in case of Bangalore district, the Screening Committee, comprising the Executive Member, KIADB; Director, SISI, and Chief Adviser, TECSOK, will discuss the project and make necessary recommendations to a Sub-Committee.

The Sub-committee, in turn, will allot land in all the industrial areas of Bangalore district. As soon as the State Level Single Level Window Agency clears the location and determines the extent to be allotted to medium-and large-scales units, the Executive Member, depending on the industrial area for which the project is cleared, will issue a letter.

The cost of the land allotted by the board is payable as follows.

I. Industrial areas in Banglore and Dakshina Kannada District—
   - (a) 20 per cent of the cost of land along with application.
   - (b) 80 per cent the cost of the land to be paid within six months of the date of issue of the allotment letter.

II. Industrial areas in Mysore, Belgaum, Hubli, and Dharwad districts—
   (a) 15 per cent of the cost of the land along with the application.
   (b) 85 per cent of the cost of the land within six months of the date of issue of the allotment letter.

III. Industrial areas located in other districts—
   (a) 5 per cent cost of the land along with the application.
   (b) 95 per cent cost of the land within 6 months from the date of issue of allotment letter.

On receipt of the total payment of the cost of land as above, a receipt-cum-intimation letter for taking possession of the land shall be issued. Handing over the possession of land shall also be considered on furnishing a commitment letter from the financial institutions, agreeing to release the land cost directly to the board.

Time Schedule

The time schedule prescribed to complete the formalities subsequent to the issue of a receipt-cum-intimation letter will be as follows.

(a) For taking possession of land: One month from the date of issue of the receipt-cum-intimation letter.
(b) For the execution of lease-cum-sale agreement: 30 days from the date of the receipt of the possession certificate, or on the exemption orders from the government (C&I Department) whichever is later.
(c) For getting the board's approval of blueprints: One month from the date of execution of the lease agreement.
(d) For commencement of civil engineering works: Three months from the date of approval of blueprints.
(e) For the completion of construction of factory buildings: 12 months from the date of issue of receipt-cum-intimation letter in respect of small-scale units and 18 months in respect of medium- and large-scale industries.
(f) For the commencement of production: 24 months from the date of taking possession.

Other Details

- The industry should be started after obtaining the necessary license/clearance/approvals from the concerned authorities such as the Government of India or the State government.
- Plans for the proposed factory/buildings or other structures to be erected on the allotted site are executed only after prior approval of the board.
- Written approval of the engineer-in-charge about the fencing of the compound wall should be obtained before its erection.
- On being satisfied that the land allotted is not being put to the prescribed use, the board reserves the right to re-enter and take possession of the whole or any part of the land.
- If necessary, the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and subsequent charges on the land.

The Karnataka Industrial Areas Development Board has developed industrial areas in the following *taluks*—Bangalore North, Bangalore South, Anekal, Hoskote, Doddaballpur, Kolar, Chikkaballapur, Malur, Bangarpeth, Mysore, Najangud, Mandya, Maddur (Somanahally), Somwarpeth (Kushalnagar), Mangalore, Udupi, Shimoga, Bhadravathi, Chitradurga, Davangere, Harihar, Tumkur, Kunigal, Belgaum, Raichur, Dharwad, Hubli, Bidar, Humanbad, Bijapur, Jamakhandi (Assangi), Hassan, Gulbarga, Bellary, and Hospet. Further, it is proposed to develop self-contained industrial areas at Mysore, Dharwad, Bidar, Raichur, and Hassan.

Karnataka Council for Technological Upgradation(KCTU)

- Five years old, KCTU is a joint venture of the State and central governments and industry associations. It is the first body of its kind in the country for SMEs.
- The aim of KCTU is national and international fusion of SMEs through technology transfer.
- The council functions under the chairmanship of the Commissioner for Industrial Development and Director of Industries and Commerce.

Objectives of KCTU

- The primary objective is to enhance the competitive status in SMEs in Karnataka through technological upgradation.
- Catalysing technology upgradation of SMEs through acquisition, adaptation, and upgradation of modern technology.
- To facilitate Karnataka SMEs to plan for modernisation and diversification growth.
- To reduce cost, improve productivity and quality, increase the competitiveness of industry, nationally and internationally and go for the latest state-of-the-art technology diversification plans to build industry competence and aim at expansion.

Guiding Principles

- Make use of research and development
- Identify and designate profit centres
- Interface with industry and government
- Availability of spectrum of technologies
- Internationalisation
- Financial independence
- Networking, both national and international

Work of KCTU as a Facilitator for Industry

- To enhance the competitive status of industries of Karnataka through technological upgradation.
- To catalyse technological upgradation of industries through acquisition, adaptation of modern technology.
- To work as a nodal agency for transfer of technology from national laboratories and research institutes to SMEs.
- To facilitate Karnataka's SMEs to plan for their modernisation and diversification growth through business growth programmes, one-to-one counselling and other relevant exposures.

- To arrange business meets of foreign delegations with their counterpart in Karnataka and vice versa.
- To guide SMEs to produce quality product by obtaining ISI and ISO certification and provide escort service for ISO 9000 / 14000 Agmark.

Major Activities

- Business growth-oriented programmes for SMEs
- Technology management programmes
- ISO 9000/14000 awareness programmes and escort service
- Programmes for skill upgradation of workers employed in SMEs including computer training WTO relay cell
- Patent assistance and patent search and filing for grant of patents
- Patent awareness seminars and WTO sensitisation programmes
- Plant level technology transfer
- Individual counselling
- Individual counsel for units for diversification, plan layout modification, improved innovation methods, business process re-engineering, and so on
- Technology bank
- Periodical publication of *Technical* for information dissemination

Achievements of KCTU

- Attended to over 1,500 enquiries on a wide range of industrial activities
- Developed a client base of 180 technology-conscious small enterprises
- Initiated specific search for product/process technologies on behalf of 100 client enterprises
- Facilitated technology transfer to 50 clients overseas companies
- Arranged delegation visits of foreign countries such as Germany, China, and Hong Kong
- Organised Intechmart'97, The International Meet with UNIDO, Government of India and other southern state governments in which arrangements were made for one-to-one discussions between 350 delegations from 31 foreign countries including UK and France, with about 350 entrepreneurs from southern India, for exploring the possibilities of investment and technology. This was the first meet of its kind at the regional level in the country.
- Arranged technology transfer between SMEs of Karnataka and their counterpart in Germany and also arranged delegation visit to Germany
- Escort service to SSIs for ISO 9000 and for IS product certification
- Prepared a report on Integrated Industrial Development Programme in Zimbabwe under G-15 auspices by setting up of a technology dissemination-cum-training centre at Zimbabwe
- Preparation of MOUs for Global Investors Meet held in Bangalore
- Facilitating technology transfer from national laboratories and recognising SSIs for adopting new technology for in-house technology development
- Assisted Department of Industries and Commerce in getting ISO 9002 Certification, the first of its kind in the country. KCTU prepared the Systems Manual.

- Assisted seven units for applying for grant of patent
- Conducted technology and interaction meet where 12 R&D Laboratories showcased their technologies
- Organised the first International Workshop on Technology Business Incubators in India (ITBI India 2001), held in Bangalore
- Conducts skill upgradation computer training programmes in association with the Department of Tribal Welfare, Department of Social Welfare and M/s Systel Computer Education, Bangalore, for imparting computer education
- Organised business growth programmes
- Brought out CD-ROM on technologies from national laboratories and other international agencies
- Conducted WTO awareness seminars
- Technology management awareness programmes in each district of the State
- Cluster study on Cashew processing industries and electronic industries
- ISO 9000 awareness programmes in each districts of the State

Networking SMEs with Following Institutions

- Technology Bureau for Small Enterprises, New Delhi, for joint venture programmes
- National Institute for Small Industry Extension and Training, Hyderabad, for extension works
- Tianjin Municipal Science and Technology Centre, Tianjin, China, for promoting scientific and technological exchange and economic cooperation
- Council for Scientific and Industrial Research, Pretoria, South Africa; for promoting scientific and technological exchange and economic cooperation.
- Central Power Research Institute, Banglore, for promoting technology transfer between the entrepreneurs of Karnataka and national and international R&D institutions
- Science and Technology Entrepreneurs Park, Mysore

Some KCTU Firsts

- ISO 9000 Series Directory—compilation of large-and medium-Scale and small-scale industries of Karnataka obtaining ISO 9000 series certification
- CD-ROM on technologies
- Technology management programmes
- Business growth programmes
- Pioneering work at the State level for patent assistance and patent search

Inter-networking

- Investment technology promotion initiative of UNIDO and UNIODO promotion offices
- GWZ Stuttgart, Germany
- DEG, Germany
- Steinbeis foundation, Germany
- Central Manufacturing Technology Institute, Bangalore

- Indian Space Research Organisation
- Korea Institute of Industry and Technology Information (KINITI)
- International Centre for Advanced Manufacturing Technology, Bangalore, India.

Doc with CSIR, Pretoria, South Africa

KCTU has entered into a Declaration of Cooperation with the Council for Scientific Industrial Research (CRISIL), South Africa for promoting and developing trade and business, science and technology exchange, and economic cooperation with South Africa, and exploring the possibilities of investments and joint ventures in different fields of industry in Karnataka and South Africa. Efforts are being made to transfer the technology in the field of Bio-Chemtek, Transportek and food processing technology from South Africa to the SMEs of Karnataka.

Technology Management Programme

KCTU has entered into a Memorandum of Understanding with Technology Management (TM) Division, Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India. Following are the activities to be implemented under the MOU.

- Cluster study on cashew processing industries
- Study of management technology of electronics industries
- Technology management awareness programme in each district of the State

MOU with CPRI

KCTU has entered into MOU with the Central Power Research Institute (CPRI), Banglore, for commercialisation of CPRI technologies.

CPRI technologies available for exploitation are the following.

- Thermal barrier coatings for energy-efficient diesel engines
- Zirconia-based plasma sprayable powders
- High-voltage ceramic capacitor dielectrics
- Ferrous-based metal matrix composites (MMC) for wears resistance applications
- Condensate depression monitor—An energy-saving aid for thermal power stations
- Solar, thermal and PV energy meter
- Instrument for measuring condensate depression in thermal power station
- Rice husk combustor
- Radio/time-based control of public lighting

TECHNICAL CONSULTANCY SERVICES ORGANISATION OF KARNATAKA (TECSOK)

Partner in Success

TECSOK is a professional industrial, technical, and management consultancy organisation promoted by the Government of Karnataka and other state level development institutions way back in 1976.

TECSOK is a leading investor-friendly professional consultancy organisation in Karnataka. Its activities range from giving appropriate investment advice, procedural guidance, management consulting, mergers and acquisitions, process re-engineering studies, impact assessment of socio-economic schemes, valuation of assets for takeovers, critical infrastructure balancing, IT-related studies, detailed feasibility studies, and reports.

For Start Ups

With its pool of expertise in varied areas, TECSOK can work with an entrepreneur to identify a variable project or product. TECSOK sharpens project ideas through feasibility studies, project reports, market surveys, sourcing of finance, and selection of machinery, technology, costing, and also providing turnkey assistance.

To help industrialists meet the challenges of today's complex liberalised business environment, TECSOK facilitates global exposures, updated technologies, different market strategies, financial restructuring and growth plan to improve profitability of an industry.

For Existing Enterprises

Sometimes, an industry may need an outside impartial consultant to provide insight on its work. TECSOK can identify incipient sickness in industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions.

While TECSOK makes the setting up of an industry easier, it also offers expert professional services to various institutions and departments of the State and Central government.

TECSOK is in the business of undertaking assignments in the field of

- technical and market appraisal of projects;
- industrial potential surveys;
- fact-finding and opinion reports;
- corporate planning;
- collection and collation of information;
- impact assessment;
- evaluation of schemes and programmes;
- asset evaluation;
- infrastructure development project proposal;
- event management and publicity campaigns; and
- organising seminars and workshops.

Human Resource

TECSOK has over 25 well-experienced engineers in different disciplines, MBAs, economists, and finance professionals. TECSOK has business-partnerships with reputed national and multinational consultants and outsources expertise for professional synergy.

Focus on Women Entrepreneurs

TECSOK has had an exclusive women's cell since 1984 to motivate entrepreneurship among women. The activities of the women's division include conducting training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs, and offering escort services to women entrepreneurs. At present the officers of the women's cell are engaged in women's development activities through Yashaswini, a separate cell created by the Government of Karnataka.

Publications

TECSOK brings out *Kaigarika Varthe,* a monthly magazine of the Directorate of Industries and Commerce. TECSOK also publishes the *Guide to Entrepreneurs, Directory of Industries* and other information brochures on a regular basis.

Focused Consultancy Areas

Promotion of agro-based industries: TECSOK has been recognised as the nodal agency by the ministry of Food Processing Industries, Government of India, for project appraisal to avail grant and loan assistance under the special schemes of the ministry. TECSOK has joined hands with the Centre for Processed Foods, a professional institution of international reputate, to assist food processing industries.

Energy management and audit: A lot of thrust is being given to use non-conventional energy sources and both the Central and State governments are offering incentives for utilisation of non-conventional energy sources. TECSOK has been recognised as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposals for availing assistance from the Indian Renewable Energy Development Authority (IREDA), New Delhi.

Environment and ecology: Over the years, TECSOK has developed expertise in environment-related studies. It undertakes assignments relating to environment education, environment impact assessment, environment management plans, and pollution control measures. TECSOK has joined hands with Karnataka Cleaner Production Centre (KCPC), a UNIDO-assisted centre for cleaner production techniques to provide total consultancy support in the area of environment.

Human Resource Development: TECSOK designs, develops, and organises business development programmes, management development workshops, skill improvement programmes apart from providing customised in-house training packages. It undertakes programmes related to empowerment of women and organisation of Self-help Groups (SHGs). TECSOK also organises skill upgradation and entrepreneurship development programmes benefiting the underprivileged sections of society. In order to encourage local entrepreneurs, TECSOK organises awareness campaigns and motivation programmes in *taluks* and district throughout Karnataka.

Other TECSOK Activities

- Guidance in product selection and project identification for investment/feasibility and viability reports
- Market survey and market development advice
- Assistance in obtaining statutory and procedural clearances
- Consultancy for agro-based industries as a nodal agency of the Government of India
- Diagnostic studies and rehabilitation of sick industries
- Environment impact assessment (EIA) studies, environment management plans (EMP), and propagation of cleaner production techniques
- Energy management and audit
- Valuation of assets for merger and takeovers

- Infrastructure development project reports
- Port tariff study and related areas
- System study and software development
- Management studies, company formation, corporate plan, enterprise restructuring, and so on.
- Designing and organising training programmes

CENTRE FOR ENTREPRENEURSHIP DEVELOPMENT OF KARNATAKA (CEDOK)

Location

The Centre for Entrepreneurship Development of Karnataka, an autonomous organisation, registered on May 15, 1992, is promoted by the Government of Karnataka and supported by the industrial development agencies of the State—IDBI, ICICI, IFCI—and the Government of India.

The CEDOK campus has been built on 14 acres of land in the Belur Industrial Area, a major growth centre, 11 km from Dharward.

Mission

CEDOK has been spearheading the entrepreneurship movement throughout the State with a belief that the entrepreneurs need not necessarily be born; they can be trained and developed through well-conceived and well-directed activities. It is now widely recognised that education can be a very effective instrument to bring out the talent and capabilities of people. Based on this belief, the mission of CEDOK is to

- augment the supply of entrepreneurs through education and training;
- produce multiplier effect on opportunities for self-employment;
- improve the managerial capabilities of small enterprises;
- contribute to the dispersal and thus expand the social base of the entrepreneurial class;
- contribute to the creation and dissemination of knowledge and insight in entrepreneurial theory and practice through research;
- augment the supplier of trainer-motivators for entrepreneurship development;
- participate in institution-building efforts;
- collaborate with academic institutions abroad and international organisations, and to organise programmes for participants from other developing countries.

CEDOK has established Statewide reputation and currently offers structured and specific entrepreneurship development programmes of value and assistance to first-generation potential entrepreneurs. CEDOK has regional managers assisted by district training officers who act as full-time trainer-motivators in all district headquarters of the State. CEDOK's endeavour is to cater to the needs of the entrepreneurs and escort them till they establish successful enterprises.

The centre focuses on a coordinated approach. The participants are provided with an opportunity to talk on a one-to-one basis or to participate in group sessions. The faculty and officers are always willing to provide suitable advice.

Participants

CEDOK conducts programmes for individuals without any family background or experience in business or industry. Programmes are specially designed and fine tuned to cater to the requirements of the participants, such as middle-level managers, teachers, accountants, traders, fresh graduates from technical and non-technical institutions, artisans, school and college dropouts, ex-servicemen, women, and backward or minority communities. The centre also trains officers from various government departments and non-governmental organisations.

Spectrum of Programmes

- Entrepreneurship awareness programme
- Entrepreneurship development programme
- Rural entrepreneurship development programme(Micro/rural enterprise)
- Entrepreneurship development programme (general and special for women, SC and ST, minorities and backward classes, technocrats, ex-servicemen, and others)
- Open learning programme in entrepreneurship
- Management appreciation programme for artisans (VISHWA)
- Advanced management programme (evening course)
- Small industry management assistants' programme
- Skill and technology upgradation programme
- Trainers' training programme
- Executive development programme (capacity building and orientation for officers and bankers)
- Faculty development programme in entrepreneurship
- Performance improvement and growth programme for existing entrepreneurs
- Technology awareness programme
- Identification of business opportunities
- Preparation of project profile
- Gender sensitisation programme
- Computer-based financial analysis
- Business counselling programme
- Industrial project preparation and appraisal
- Decision-making technique for small enterprises
- Succession planning for entrepreneurial continuity

Teaching and Learning Environment

Faculty: CEDOK's faculty members regularly consult with industry, trade, and government organisations. This enables the faculty to bring the reality of world into the classrooms.

Computer centre: State-of-the-art computers are available to faculty and staff in the CEDOK campus. High-speed data communication enables fast and easy Nicnet/Internet access and electronic mail services. The software inventory is continuously updated to keep pace with the requirements of the Centre's diverse educational endeavours.

Library and information centre: Participants have access to a specialised collection of books, directories, newsletters, periodicals, journals, reports, video cassettes and dissertation extracts. Special services include major library catalogues, computer-assisted database searching, and media services. The participants also have access to photocopying, library, and information services.

Campus accommodation: Residence on the campus is recommended for all participants. The hostel can house 24 participants (six dormitories of four beds each). It has three guest suites as well. The hostel is a short walk from the classrooms and other facilities.

Campus restaurant: The restaurant is designed to cater to the need of the participants staying in the hostel and visitors to the campus. The dining hall with a seating capacity of 300 is furnished with all facilities.

Auditorium and seminar halls: The auditorium can accommodate 300 participants. It has two green rooms, and is equipped with a projector, acoustic and lighting equipment. It is designed to conduct business-related seminars and conferences. A business centre for entrepreneurs and a boardroom with a seating capacity of 20 is provided on the first floor.

The administrative block houses the faculty, library, reprographics, and audio-visual room. The two seminar halls can seat 40 each.

What CEDOK Offers

CEDOK offers many opportunities for an entrepreneur to expand his horizons, attain expertise in entrepreneurship, and plan careers as successful entrepreneurs.

KARNATAKA STATE FINANCIAL CORPORATION (KSFC)

The Karnataka State Financial Corporation was established by the Government of Karnataka in March 1959 under the State Financial Corporations Act 1951, for extending financial assistance to set up tiny, small-and medium-scale industrial units in the State. Since then it has been working as a regional industrial development bank of Karnataka.

KSFC has a decentralised system of working. Each district has a branch office; some districts have more than one branch.

KSFC extends lease financial assistance and hire-purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has a merchant banking department and is approved as a category I merchant banker by the Securities Exchange Board of India (SEBI). This department takes up the management of public issues, underwriting of shares, project report preparation, deferred payment guarantee, syndication of loans, bill discounting, and similar tasks. Fund-based activities like subscription to non-convertible debentures and factoring services are also considered.

KSFC gives preference to the projects, which are

a. promoted by technician entrepreneurs;
b. in the small-scale sector;
c. located in growth centres and developing areas of the State;
d. promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society;
e. characterised by high employment potential;
f. capable of utilising local resources; and
g. in tune with the declared national priorities.

Eligible Concerns for Financial Assistance

Assistance from KSFC is available to industrial concerns as defined under the State Financial Corporations Act 1951. According to the Act, industrial concerns are those engaged/to be engaged in manufacture, preservation, and processing of goods, mining, power generation, transport, industrial estates, hoteliering, research and development of any product or process connected to industry, weigh bridge facilities, power laundries, photostat/photocopying, providing telex/telecommunication facilities, providing drilling rig facilities, mining equipment, hiring out of heavy material handling equipment, cranes, earth-moving equipment and other similar equipment, hospitals/nursing homes, medical stores, computers, tourism-related activities, construction of roads, tissue and floriculture, software development, software technology parks, black board vehicles, office construction, godown and warehouse construction, mobile canteens, commercial complexes, market-related activities, training institutes, office automation, and so on.

Area of Operation

KSFC extends loans to industrial concerns established/to be established in the State of Karnataka. Industrial concerns having registered office outside the State can also avail financial assistance provided the place of business is in Karnataka and they agree to shift their registered office to the State of Karnataka.

Loan Schemes

KSFC has evolved loan schemes for extending financial assistance to industrial concerns promoted by rural artisans, weaker sections of society, disabled entrepreneurs, ex-servicemen, women entrepreneurs, and others. KSFC has also evolved loan schemes for extending financial assistance to hotel and tourism-related industry, industrial estates, hospitals/nursing homes, computers, second-hand machinery, qualified professionals, and so on KSFC also operates National Equity fund scheme and Mahila Udyama Nidhi scheme.

Brief details of the various loan schemes are given below.

1. Composite Loan Scheme: This scheme is essentially designed to meet the complete financial requirement of rural artisans for acquiring equipment as well as for meeting working capital needs of the project. Artisans and village and cottage industries in the tiny sector can take advantage in this loan scheme. Under this scheme, loans upto Rs 50,000/- at nil margin (zero margin) is available for units proposed in places where the population does not exceed 5 lakh. Of this amount upto Rs 10,000/- is earmarked for construction of shed/building for the project.

2. Disabled Entrepreneurs Loan Scheme: This scheme is for rehabilitation of disabled persons, who intend to establish rural, cottage or small units. Financial assistance upto 100 per cent is available without any stipulation on the population of the place of the unit. The maximum loan assistance is Rs 50,000/- for acquisition of plant, machinery, and working capital needs of the unit. Visually, aurally and orthopedically challenged persons can take advantage of this loan scheme for setting up their enterprises.

3. Scheduled Caste and Scheduled Tribe Loan Schemes: This scheme is designed to meet the complete financial requirement of both equipment finance and working capital needs of the scheduled caste and scheduled tribe entrepreneurs for setting up of their small/service industry. The maximum loan assistance is Rs 50,000/- for meeting the cost of plant and machinery and working capital needs of the unit. The assistance is available for establishment of units in the State without any population limit on the lines of the composite loan scheme.

4. Ex-servicemen Loan Scheme: This scheme is for ex-servicemen/widows of ex-servicemen to set up small industrial units, acquire transport vehicles, and set up hotel/tourism-related activities for gaining self-employment. The maximum loan assistance is Rs 11.25 lakh and the ceiling on the project cost is Rs 15 lakh. Of the project cost 15 per cent subject to a maximum of Rs 2.25 lakh, is eligible as soft capital, which carries 1 per cent per anum service charges. The promoter's contribution is only 10 per cent of the project cost. Soft seed capital assistance is not available for acquisition of transport vehicle.

5. National Equity Fund Scheme: This scheme provides equity type of assistance upto Rs 2.50 lakhs to small enterpreneneurs for existing and new projects in the tiny, small-scale, service sector, and for rehabilitation of potentiality viable sick SSI units. The ceiling on the project cost is Rs 10 lakhs and the promoter's contribution is 10 per cent of the project cost (including working capital margin). The units which have already availed assistance under this scheme and whose actual total project cost (including working capital margin) does not exceed Rs 10 lakhs as on the date of consideration of proposal are also eligible for additional financial assistance. While the equity type of assistance carries interest at 1 per cent per annum, the term loan carries a normal rate of interest.

6. Mahila Udyama Nidhi Loan Scheme: This scheme is meant for extending financial assistance to first-generation women entrepreneurs to set up new SSI units. This scheme provides equity type of assistance along with term loan. Existing tiny/SSI and service units are also eligible for assistance for expansion/diversification/modernisation costing upto Rs 10 lakhs. The ceiling on project cost is Rs 10 lakh and the maximum equity assistance is Rs 2.50 lakh at 25 per cent of the project cost. Women entrepreneurs who seek assistance under this scheme should possess managerial and technical skills to run the unit and they shall be the chief promoters of the proposed unit. The equity type of assistance is termed as soft seed capital, which carries interest at 1 per cent per annum. The term loan component carries the normal rate of interest.

7. Single Window Loan Scheme: This loan scheme provides assistance to new tiny and small units whose project cost (excluding working capital margin) does not exceed Rs 30 lakh and the total working capital requirement at the normal level of operation is upto Rs 20 lakhs. Term loan for fixed assets and term loan for working capital is fixed on the basis of debt equity in the ratio of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh.

8. Transport Loan Scheme: Assistance is provided in the form of term loan upto 75 to 80 per cent of the cost of purchase of trucks, tippers, tractors, taxis, three-wheelers, LCVs, cars, auto-rickshaw for transportation of public goods or passenger as the case may be. The assistance is for acquiring new vehicles only. Preference will be given to applicants with experience in the line and those having regular transport contract/inter-State permits. Applications for assistance from owners of more than six vehicles are not considered in view of the policy to assist only the smaller entrepreneurs engaged in transport operation. Black board vehicles such as cars, vans, and omni buses are also financed, subject to eligibility. Loans under this scheme are to be secured by way of collateral securities acceptable to the KSFC.

9. Equipment Finance Loan Scheme: This scheme is for existing SSI/medium-scale sector/units working on profitable lines with a good track record. The unit should have been in existence for four years. The assistance is available for acquiring original equipment/capital goods, both indigenous and imported, for meeting the expansion/diversification/modernisation/balancing equipment needs of the unit. Loans under this scheme are expedited fast—generally in a day or two.

10. Diesel Generator Loan Scheme: Existing small-and medium-scale industrial units can avail loans under this scheme for acquiring DG set for their captive consumption. The loans are available under a liberal scheme upto 90 per cent of the cost of the equipment. Assistance is also extended for acquisition of mobile generators for the purpose of hiring.

11. Computer Loan Scheme: Assistance under the scheme is available to SSI units upto a maximum of Rs 5 lakhs for acquiring computers for both production-related and office automation purposes. Small hotels, hospitals, nursing homes, tourism related activities with project cost not exceeding Rs 45 lakh are also eligible for financial assistance.

12. Hospitals/Nursing Homes/Medical Store Loan Scheme: Hospitals and nursing homes are eligible for financial assistance upto Rs 240 lakh for corporate bodies and Rs 120 lakh for proprietoary/partnership concerns/trusts for the establishment/expansion/modernisation of their project. The project must be backed by expert services of postgraduate doctors. A debt equity ratio of 2:1 will be applied for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh for determining the extent of loan for the project. Assistance is also extended to acquire ready built premises or for the construction of medical store, subject to eligibility.

13. Electro-medical Equipment Loan Scheme: This scheme extends financial assistance to hospitals/nursing homes/doctors for acquiring electro-medical equipment for diagnosis and treatment. The maximum loan assistance is Rs 240 lakhs for corporate bodies and Rs 120 lakhs for proprietory/partnership concerns. A debt equity ratio of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh will be applied for determining the extent of loan for the project.

14. Modernisation Loan Scheme: Units in tiny, small-and medium-scale sector which are in existence and intend to modernise are eligible for financial assistance upto Rs 240 lakh for corporate bodies and upto Rs 120 lakh for proprietory/partnership concerns. Modernisation may include replacement and renovation of plant and machinery or acquisition of balancing equipment for optimum utilisation of installed capacity.

15. Tourism Related Activities Loan Scheme: Tourism-related activities such as setting up of restaurants, travel and transport service; tourist service agencies, cultural and convention centres; amusement parks and so on are eligible for financial assistance in the form of term loans. Commercial complexes with hotel facility are also eligible for financial assistance. The maximum loan assistance is Rs 240 lakh for corporate bodies and Rs 120 lakh for proprietory/partnership concerns. A debt equity ration of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh will be applied for determining the extent of loan for the project.

16. Loan Scheme for Maintenance, Development and Construction of Roads: Individuals/firms/companies engaged in the operation/development/maintenance and construction of roads for the past three years, working profitably for past two years and registered with government agencies like PWD, CPWD, and MES are eligible for financial assistance. The maximum loan assistance of Rs 240 lakh for corporate bodies and Rs 120 lakh for proprietory/partnership concerns is provided for acquiring capital goods/equipment like roadrollers, asphalting units, concrete mixer and so on required for development, repair, maintenance, and construction of roads. A debt equity ratio of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh will be applied for determining the extent of loan for the project.

17. Assistance for Acquiring Indigenous or Imported Second-hand Machinery: Units which have been in existence for a minimum period of two years, working profitably, and regular in repayment of loans availed by any financial institutions/commercial banks, are eligible for financial assistance. The maximum loan assistance is Rs 240 lakh for corporate bodies and Rs 120 lakh for proprietory/partnership concerns. A debt equity ratio of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakh will be applied for determining the extent of loan for the project. The corporation will insist on valuation certificate from a chartered engineer in respect of second-hand machinery proposed.

18. Qualified Professionals Loan Scheme: Qualified professionals in the fields of management, accountancy, medicine, veterinary medicine, architecture, and engineering are provided financial assistance for setting up business enterprises/private practice/consultancy units under this scheme. Both new and existing professional entrepreneurs are eligible for financial assistance. The ceiling on project cost is Rs 20 lakhs.

19. (a) Assistance to SSI units for Technology Development and Modernisation: Existing industrial units in the small-scale sector in operation for at least three years and regular in repayment to financial institutions/banks are eligible for assistance under the scheme to modernise their production facilities and to adopt imported and updated technology to strengthen their export capabilities. Proprietorship, partnership, cooperative societies, and private and public limited companies are eligible for assistance. The purpose of assistance is for purchasing capital equipment, acquisition of technical know-how, designs, drawings, improvement of technology, and so on. The ceiling on project cost is Rs 50 lakh and the minimum promoter's contribution is 20 per cent of the project cost. A debt equity ratio of 2:1 will be applied for determining the extent of loan.

(b) Scheme of Assistance for Acquisition of ISO 9000 Series Certification by SSI units: Existing industrial concerns in the SSI sector which have been in operation for a period of four years and working profitability for the previous two years and regular in repayment to financial institutions/banks are eligible for assistance. The purpose of assistance may be towards meeting the expenses on consultancy, documentation, audit, certification fees, equipment and calibrating instruments for getting certification. The minimum promoter's contribution would be 15 per cent of the project cost. Units approaching for loan under this scheme have to offer collateral security as per the requirements of KSFC.

20. Hotel/Mobile Canteen Loan Scheme: Medium standard hotels proposed in State capital, districts and *taluk* headquarters and important tourist locations within the State are eligible for financial assistance. Existing hotels going in for expansion/renovation are also eligible for assistance. The hotel should have boarding, lodging and its restaurant facilities and its building plans must have been approved by the local authorities. Hotels proposed as per the specifications of the Tourism Department, government of Karnataka, are eligible for incentives as per the government tourism policy. The maximum loan assistance is Rs 240 lakh for private and public limited companies and Rs 120 lakh for proprietory and partnership concerns. A debt equity ratio of 2:1 for loans above Rs 10 lakh and 3:1 for loans upto Rs 10 lakhs will be applied to determine the extent of loan. Normal security margin retained varies from 30 to 40 per cent. Mobile canteens/catering are also considered for assistance subject to eligibility, providing they can furnish 100 per cent collateral security.

21. Industrial Estate Loan Scheme: Industrial estates proposed in location with adequate demand and scope are considered for financial assistance upto Rs 240 lakh for corporate bodies and upto Rs 120 lakhs for proprietory/partnership concerns. Existing industrial sheds going in for expansion can also avail the assistance under the scheme. New units should propose construction of a minimum of three sheds and provide basic facilities like roads, power, water, drainage and so on as required by the occupants. The cost of construction should be such that the rent charged is reasonable. In case companies and cooperative societies propose the industrial sheds, it is desirable that all the occupants of the shed become shareholders of the company or society. For more details refer to brochure No. KSFC/ PM-45/12-98.

22. (a) Loan scheme for Ready-built Office/Construction of New Office Building: Firms and companies which have been in operation for at least five years, with a successful track record for the preceding three years are eligible for assistance (scheme applicable to Bangalore city only). The debt equity ratio is 2:1 and the minimum promoter's contribution will be 25 per cent.

(b) Loan Scheme for Acquisition of Land/Building/Commercial Space: Individuals, firms, and companies are eligible for assistance for acquiring industrial plots/commercial land as a part of projects that can be financed by KSFC. Assistance can also be extended for acquiring ready-built commercial space in a multistorey complex for the purpose of setting up hotels and restaurants or other activities that can be financed by KSFC. The debt equity ratio is 2:1 and the minimum promoter's contribution will be 25 per cent.

(c) Loan Scheme for Construction of Godowns and Warehouses: Individuals, firms, and companies are eligible for financial assistance for the construction of godowns and warehouses for personal use or for renting. The debt equity ratio is 2:1 and the minimum promoter's contribution will be 25 per cent.

23. (a) Loan scheme for Office Automation: Financial assistance can be availed for automation of existing firms and companies with a successful track record for the preceding three years. Items that can be considered for finance are PCs, copiers, fax machines, telephone system, and so on. The minimum promoter's contribution will be 25 per cent.

(b) Loan Scheme for Training Institutes: Reputed companies can avail loans for setting up in-house training facilities for their executives. The term loan facility is provided for construction of building, acquisition of furniture, equipment, and so on. The minimum promoter's contribution is 25 per cent and the debt equity ratio will be 2:1.

24. (a) Loan scheme for Private Software Technology Parks: Units with own site measuring 5000 to 10000 sq ft in a good locality which propose to set up software technology parks for the purpose of onward lease to software units in cities like Bangalore, Mysore, Mangalore, Hubli-Dharwad, Belgaum, and Hassan are eligible for assistance. The minimum promoter's contribution will be 25 per cent and the debt equity ratio shall be 2:1.

(b) Loan Scheme for Software Development: Entrepreneurs desirous of setting up units for software development in important growth centres, for the export and domestic market and who possess an engineering degree from a reputed college/university with specialisation in computer science and work experience in any foreign software company or MNC or in the top 20 software export companies identified by NASSCOM in the previous year for a period of at least five years in the position of software manager or higher are considered for assistance. The minimum promoter's contribution will be 25 per cent and the debt equity ratio shall be 2:1.

25. Loan scheme for Commercial Complexes: Individuals, firms, companies, and other eligible constitutions are eligible to avail loan facility under this scheme to establish commercial complexes in Bangalore, district headquarters, and other cities. Assistance is given for building construction, interior decoration, air conditioning, providing lift, communication facilities, and so on. The commercial complexes can be either leased or sold on outright basis with the prior approval of the corporation. The minimum promoter's contribution is 35 per cent and the debt equity ratio shall be 1.50:1. The minimum loan assistance will be Rs 10 lakhs and maximum upto Rs 240 lakhs depending upon the constitution of the promoters.

26. Loan scheme for Marketing Related Activities (AMARA Scheme): Existing small-and medium-scale units (at least two years old) with good track record and sound financial position are eligible for financial assistance to undertake various activities to increase their sales in domestic and foreign markets and /or to create physical marketing infrastructure. The minimum assistance is Rs 5 lakh and maximum Rs 50 lakh. The debt equity ratio shall be 2:1 while the minimum promoter's contribution shall be 25 per cent.

Equity Lease Finance

Profitable industrial units can avail the services of plant and machinery/equipment on lease without making investment or incurring debt obligation and become more competitive and efficient. The minimum assistance is Rs 5 lakh. The applying unit should be in production for the preceding two years, earning profits and regular in repayment to financial institutions/bank. The unit requiring lease finance may approach the equipment lease finance and hire purchase department.

Hire Purchase

This scheme provides for a fast, easy alternative to ready cash. Industrial concerns in commercial production for two years and earning profits and regular in their repayments to financial institutions/ banks can avail assistance is Rs 1 lakh. Professionals and commercial transport operators can also avail the assistance. Units requiring hire purchase assistance may approach the equipment lease finance and hire purchase department.

Merchant Banking and Financial Services

KSFC has been approved as a category I merchant banker by the Securities Exchange Board of India (SEBI) and takes up management of public issues, under-writing of shares, deferred payment guarantees, project report preparation, syndication of loans, bill discounting, and so on. The fund-based activities comprise subscription to non-convertible debentures, factoring services, and so on. For further details the units may approach the merchant banking and financial service department.

KARNATAKA STATE INDUSTRIAL INVESTMENT AND DEVELOPMENT CORPORATION (KSIIDC)

It is a premier State level industrial development corporation established under the Companies Act in 1964. KSIIDC is wholly owned Government of Karnataka undertaking with share capital, including share application money, of Rs 112.44 crore. It is an ISO 9001 company, recognised by IDBI as Category "A" IDC.

KSIIDC has its head office at Bangalore and branch offices at Hubli, Mysore, Mangalore, and Gulbarga.

Objectives

The objectives of the Karnataka State Industrial Infrastructure Development Corporation are as follows.

- To act as a catalyst for promoting industrial growth in the State, especially in the medium and large sector by

- identifying industrial opportunities;
- providing guidance and advice to prospective entrepreneurs;
- providing necessary financial assistance and other related services to realise these opportunities.

- To act as the designated agency of the government to
  - plan and formulate proposals for industrial infrastructure development projects after assessing the need in different sectors/areas; and
  - monitor the specified mega projects during implementation as the nodal agency.

Activities

The spectrum of activities undertaken by the KSIIDC spans the following areas.

To act as State level development finance institute

- Provides a host of products and services, from project conception to post-production stage, to new projects as well as for expansion, modernisation or diversification of existing companies in the small-, medium- and large-scale sectors, including sectors like health care, hospitals, hotels, tourism, and so on.

As a development finance institute KSIIC offers the following.

- Normal term loan (upto Rs 600 lakh per company)
- Equipment finance (upto Rs 400 lakh per company)
- Lease finance (normally upto Rs 300 lakh per company)
- Corporate loan (normally upto Rs 200 lakh per company)
- Bill discounting (upto Rs 200 lakh per company)
- Non-convertible debentures (upto Rs 500 lakh per company)
- Bridge loan against subsidy
- Rehabilitation loan (need based)
- Deferred payment guarantees
- Letter of Credit

The financial services offered by KSIIC are as follows.

- Public/rights issue management
- Investment in public issues (DFI quota)
- Bought out deals
- Project consultancy/project appraisal
- Credit syndication
- Management advisory services
- Underwriting of shares
- It is a Category I merchant banker recognised by SEBI

To perform promotional activities

KSIIDC performs the following industrial promotional activities for growth of industries in the State.

- Project identification
- Identification and selection of suitable entrepreneurs

- Assistance in securing statutory and government approvals/clearances
- Direct participation in equity
- Promotion of joint sector projects
- Providing escort services
- Acting as a nodal agency of the Government of Karnataka for specified major/mega projects
- Attracting industrial investment including direct foreign investment and NRI investment
- Arranging meetings of industrialists and other related bodies to study industry problems/issues
- Conducting industrial promotion campaigns within and outside the State
- Organising overseas visits of delegations of industrialists from Karnataka
- Inviting delegations and trade bodies from others countries to explore investment opportunities in Karnataka

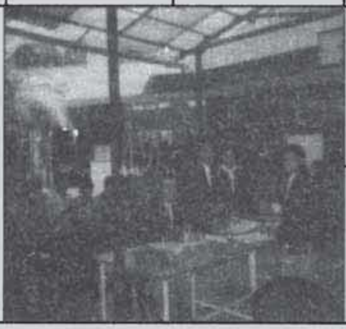
To perform developmental activities

KSIIDC is a designated agency of the government to plan and formulate proposals for infrastructure development projects like

- industrial parks/townships;
- industrial growth centres;
- airport of international standard;
- minor airports; and
- sea ports.

5

Setting Up a Small Business Enterprise



These budding entrepreneurs from Andhra Pradesh, India, are preparing to set up a small business enterprise.

"Long-range investing under rapidly changing conditions, especially under conditions that change or may change at any moment under the impact of new commodities and technologies, is like shooting at a target that is not only indistinct but also moving and moving jerkily at that."

—JA Schumpeter

Learning Objectives

- To identify the business opportunities
- To understand the procedure for setting up of a small-scale industrial unit
- To present a business plan

IDENTIFYING THE BUSINESS OPPORTUNITY

The overriding reason for anyone to think of establishing a SSI unit can be summarised in one word—opportunity. The opportunity to be your own boss, to provide a product or service, to implement your ideas, which can generate sufficient surplus, is reason to think of starting an SSI unit.

Starting a small business takes a lot of courage. To be successful—to stay in business—you need a combination of hard work, skill, and perseverance.

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

The second group consists of people who want to start their own business, but do not have any real definite ideas about what they'd like to do. They may have developed skills in the course of their employment or education, but may ñot be interested in opening a business in the same field of endeavour.

Box 5.1 Before Starting Your Own Business

- Does the idea fire your motivation and is it adequate enough to keep you going for next one to two years?
- Is it a viable business proposition in your area?
- Does it match the needs of your clientele, local or otherwise?
- Check it out with basic market research.
- Test it out in the market.
- Consult with experts.
- Look out for competition in the field.
- Is it a sunrise industry?
- Evaluate Your business opportunity.
- Project conceptualisation.

BUSINESS OPPORTUNITIES IN VARIOUS SECTORS

There are many business opportunities waiting to be tapped by potential as well as existing entrepreneurs. Some of them are given below.

Green Business

Green entrepreneurship is a buzzword in the present business scenario that signifies an industrial or business activity with the least adverse impact on the indoor as well as outdoor environment. The concept of green entrepreneurship stresses upon the prevention of waste at the source rather than treating the waste at the end of a process. One of the important strategies towards green entrepreneurship is waste minimisation—is a new and creative way of thinking about products and processes that make them less polluting. It is achieved by the continuous application of strategies to minimise the generation of wastes and emissions. Adopting waste minimisation strategies result in creation of new market opportunities by way of opening new avenues for by-products, which were earlier banned due to use of non-environment-friendly technology.

Biotechnology

Biotechnology is the industrial use of living organisms to manufacture food, drugs, and other products. India's biotechnology sector has received a huge boost from the sequencing of the human genome during 2000. As a result of this development, more and more investors and entrepreneurs are taking an interest in this sector. Biotechnology involves the application of biological process and technologies, such as genetic engineering, in order to produce novel or useful products such as drugs, diagnostic tools, drought-resistant crops, or even a whole new class of supercomputers. Biotechnology promises to have a dramatic affect on sectors such as pharmaceuticals, health care, agriculture, pollution management, and insurance.

Events Management

With increasing affluence, and robust economics, budgets are increasing and the clients are spending more to make their events more elaborate and memorable. The event industry is embracing technology and education, which is making event business run smoother. Overall, the events industry is greatly placed with a bright future. Globally, the industry is having unprecedented growth. In India today, the events industry is worth between Rs 300 and Rs 350 crore. According to FICCI estimates, it has the potential to cross more than Rs 3,350 crore in less then five years from the year 2004, thus opening a vast array of career opportunities for the youth.

Event management is now emerging as a new growth industry, capable of generating economic benefits and employment. Organising events also helps to generate investment in building up the infrastructure, besides providing opportunities to access new technology, exchange ideas, and establish business and professional contacts as well as other social and cultural aspects. Burgeoning of satellite channels and the popularity of Indian artists have been other factors responsible for the recent spurt in growth.

An important aspect of event management is the multidisciplinary tiers of the industry. Events create maximum employment through direct and indirect jobs in the form of event organisers and managers, equipment handling, sound and light technicians, security, transport services, catering management, to mention a few. Indirect jobs like advertising, designing and printing of stationery, flower vendors, souvenir making and so on, are created, giving employment to a large number of people. Even a small conference would require all these facilities and as such give employment directly and indirectly to a number of people.

IT Enabled Services

The Information Technology (IT) sector has literally taken over the country. There is tremendous potential for providing IT enabled services within the country and abroad. The Stevens report (published in the *Economic Times*, 28 September 2004) says that customer interaction centres, supplying traditional call centre services and newer Internet-based customer services like e-mail and web-chat response, will account for slightly more than half the IT enabled services exported to the US in 2005. Of this, e-mail and web-chat response will constitute the majority of customer interaction services provided from India. Medical transcription, financial and accounting services, content development, and geographic information systems are other business segments, which will add to export volumes. The report further says that in the next five years the most successful remote processing service providers in India can look forward to

- providing higher value IT enabled services within their specific business segments or, alternatively, move to higher value-added services;
- start supplying IT enabled services to US end users directly rather than indirectly through outsourcing intermediaries in USA; and
- establishing a presence in the US market to support direct sales to end users. At a minimum, this presence should include US-based staff for marketing, customer service and liaison, and project management. In some cases, it will also be advisable for service providers to establish specialised production capabilities in USA to supplement exports from India, By doing this, the Indian IT enabled service provider will be able to allocate work between countries in order to achieve maximum productivity and profitability.

Food, Fruits and Vegetables Processing, Refrigeration, and Transportation

India has emerged as one of the topmost food-producing country in the world. The Indian climate is suitable for growing vast varieties of food grains. India needs to exploit this potential by processing our food grains. Indian food is well known the world over. Processed food will have a good market in India as well as abroad. Food processing would also earn us much-needed foreign exchange.

Fruits and vegetables are grown in plenty in India. The country has emerged as a leading producer of fruits and vegetables. Fruits and vegetable processing offers potential for high value addition and potential entrepreneurs can earn a lot from such products. By processing fruits and vegetables, producers will get a proper price for their products and entrepreneurs will get good business opportunities.

Mineral Water

We are entering an era when potable bottled water will find place in almost all general stores and it will become an unavoidable expenditure for people at large. Statistics reveal that the size of Indian mineral water industry during 1999 was of the order of approximately Rs 800 crore and his grown to the size of 1000 crore in the year 2005. Many small-scale entrepreneurs can find business opportunities in this fast growing market.

Courier Services

Virtually worldwide, an effective door-todoor courier service plays an integral part in the success of many business. Providing the vital link between suppliers and consumers, courier services enable **cost-effective distribution** of time-critical goods and documents. The accelerated rate of global integration needs a courier that sets the pace—especially in a country that is as large, diverse and economically vibrant as India. If recent trends are any indication, courier services both in the organized and unorganised sector ensure a promising future.

Insurance Sector

Prior to privatisation of insurance in India, only two, government-owned public insurance companies—LIC of India and General Insurance Corporation—operated in the market to carry out insurance business. Almost 20 insurance companies have now entered the insurance fray. Most of these companies have collaboration with world-class insurance companies. Insurance business is experiencing a growth rate of 20–25 per cent per annum. In terms of insurance premium, the market is worth approximately Rs 40,000 crore in the year 2004 and it is estimated to cross Rs 6,00,000 crore mark by 2010. In days to come the insurance industry will provide abundant business opportunities to insurance brokers, agents, salespersons, insurance claim processors, loss assessors, insurance surveyors, and many others, who will provide indirect support to the industry.

Telecommunication

Telecommunication continues to be a weak link in India's basic infrastructure. There are ambitious plans to enhance the telephone penetration ratio in the country. Policy formulators are aiming at providing telephones to a substantial percentage of population. Companies like Reliance Industries Limited, Bharat Sanchar Nigam Limited, Satyam Infoway, and others have plans to expand this sector. Investment by these players will throw open many opportunities for entrepreneurs.

Herbal Sector

The age-old practices of Ayurveda and other Indian systems of medicine depend heavily on herbal preparations. Such systems are gaining wider acceptance now and scientists should exploit this opportunity. The worldwide herbal market is expanding and India can easily earn revenue by exporting herbal products. In fact, India can compete with China in this field and earn revenue. This sector provides ample opportunities for entrepreneurs.

Tourism Sector

A number of entrepreneurial opportunities exist in the tourism sector. Proper lodging and other infrastructural facilities still need to be developed near tourist venues so that tourists who visit these places can have a comfortable stay. Drinking water, sanitation, hygiene standards, and transportation facilities need to be maintained. Qualified, trained and licensed guides are also required. These requirements present ample opportunities for entrepreneurs. Holiday resorts, round-the-clock tourism information centres, and package tours are the avenues available in this sector.

Vermiculture

Organic farming is becoming popular everywhere. This change in attitude is mainly due to environment-and health-conscious people. Farmers, today, have realised that organic farming can increase yields. The promotion of vermiculture is gaining importance in India. Potential entrepreneurs with interest in agriculture-related activities would find good business opportunities in this area.

Plastic

Plastics are perhaps the most versatile of all the materials known. Being synthetic, they can be tailormade to meet very specific performance requirements of the end use. Some of the major advantages of plastics are that they are eco-friendly and can be recycled and reused; they require a fraction of energy for conversion to an end product or for recycling as compared to any alternate material. They are easier to handle and process with strictest dimensional tolerances and are abundantly available. By virtue of their versatility, plastics are replacing conventional materials such as wood, glass, metal, paper, and so on, in varied segments like packaging, houseware, business electronics, engineering, agriculture, irrigation, automobiles, telecommunications, and white goods industry. Research in this sector revels that plastics, with some modifications, could be made to conduct electricity. Plastics are the lifeline of advanced technology and health care. It is the fastest growing industry in the country. This sector provides tremendous opportunities for entrepreneurs.

Home-based business Today home-based businesses are becoming popular for various reasons. The pros and cons of home-based businesses are given below.

- Your start-up costs will be lower
- Your operating costs will be lower than they would be if you were renting space and paying utilities
- There will be no commuting involved
- If your location is unimportant to your business, you can theoretically live anywhere and still operate your business
- You may be more flexible in your schedule if your business can be conducted at your convenience or outside "normal" weekday business hours
- You are much more vulnerable to interruptions from members of the family, neighbours, and door-to-door salespeople
- You may have trouble attracting qualified employees
- You may be less accessible to suppliers

Visit www.opportunityindia.net for identifying business opportunities.

- You may have an image problem, although with the growing popularity of home businesses, that is less common.
- You may run out of space at home if your business grows.

Box 5.2 Home-based Businesses

There are many businesses especially in the services sector, which can be run efficiently from home. A list of some of such industries is given below.

- Courier and messenger service
- Outdoor catering service
- Mail order retailing
- Beauty parlours
- Health clubs
- Travel agencies
- Clearing and maintenance services
- Travel agencies
- Date processing
- Medical clinics
- Crèches

Box 5.3 Business Opportunities Need to be Filtered through a Five-layer Sieve

- Researching your industry— how can you learn more about your chosen industry and about the resources that are available to help you?
- Market assessment— is there a market for your product or service? If so, how much income can you expect to derive from it?
- Profitability assessment— how much will starting a new business cost you? Can you afford a lengthy "red ink" period following start-up, as well as periodic lulls in cash flow? Can you afford to fail?
- Financing assessment— will you be able to obtain the necessary financing for your business? If so, from where?
- Legal assessment— what potential legal liabilities are you exposing yourself to by starting a new business? Are the costs of protecting yourself worth the trouble?

The potential sectors for business opportunities are: Green business, Biotechnology, Events management, IT enabled services, Food processing, Mineral water, Courier services, Insurance, Telecommunication, Herbal, Travel and Tourism, Vermiculture, and Plastic.

DISCUSSION FORUM

- How do you identify a business opportunity?
- What are the potential sectors for business opportunities today in the global village?

FORMALITIES FOR SETTING UP OF A SMALL BUSINESS ENTERPRISE

The formalities for setting up of a Small Business Enterprise is given in Fig. 5.1.

1. Selection of a Project

A strong entrepreneur is the most vital aspect of every successful project. In order to set up a small-scale industry, a suitable project has to be decided upon. This involves selecting a product or service, and a location for the unit. Based on these selections, a project feasibility study has to be conducted and then a brief profile has to be prepared for the proposed project. Then an entrepreneur has to prepare a business plan. Depending on the type of project, location, investment involved, and so on, the entrepreneur has to proceed to take further steps in establishing the unit.

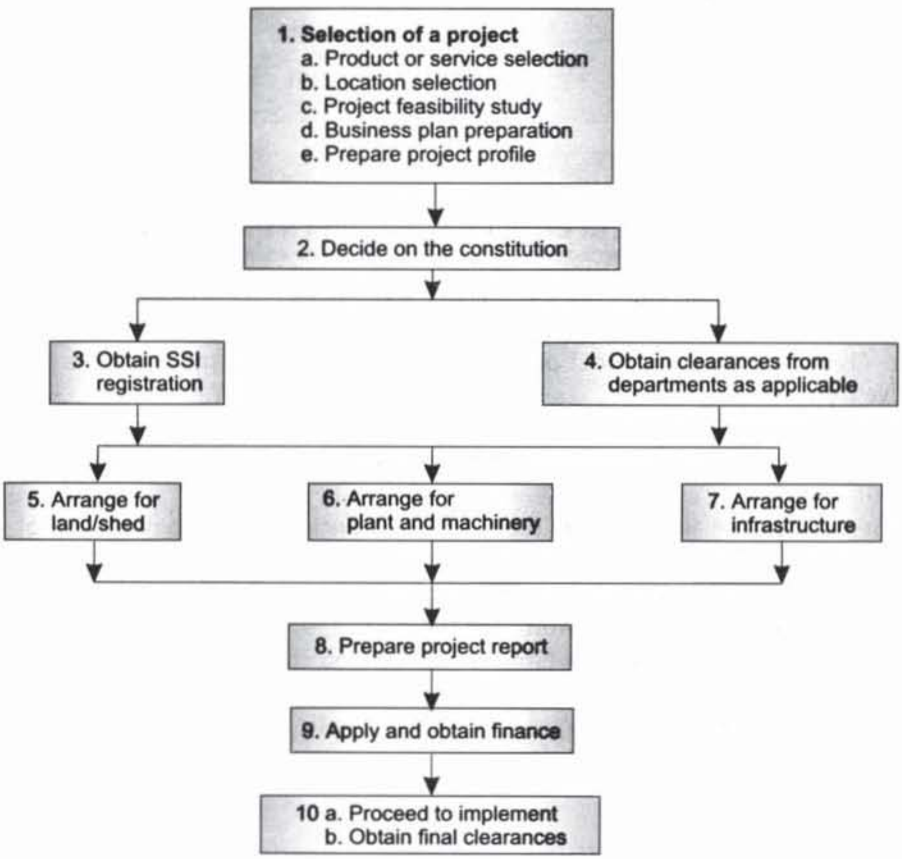


Figure 5.1 ■ Flow chart for setting up a small-scale industrial (SSI) unit

Project selection is the initial decision which an entrepreneur has to make. Project selection and preliminary activities involve the following.

a. Product or service selection
b. Location selection
c. Project feasibility study
d. Business plan preparation
e. Preparation of a project profile

(a) Product or Service Selection

The entrepreneur has to decide on a suitable product or a service based on which a project can be started. He has to consider various factors before deciding on a suitable project. The main factors are as follows.

- Background and experience of the entrepreneur(s)
- Availability of technology and know-how for the project
- Marketability of the product/service
- Investment capacity
- Availability of plant and machinery
- Availability of raw materials
- Availability of proper infrastructure facilities (land/shed, power, water, transport, and so on).

Make a careful analysis of the product or service you are choosing. Sometimes, in the short run, there is a shortage of a particular commodity in the market. Does that mean you can jump into that business? The first thing in such a case is to analyse the situation. Keep in mind that shortages may occur due to a number of reasons. A good entrepreneur always examines the pros and cons before setting up a business. It may tempt you to think that perhaps you have found a good businesses idea. But do not be easily influenced by these temporary shortages. Carefully analyse the future demand-supply position of the product, say for the next three to five years. Only when you are certain that the shortage will remain there for a considerable period of time and you would be able to generate enough profits in the very first or second year of operation and that you can produce a quality item within an acceptable pricing, only then should you venture into such a business.

There are many organisations which are in possession of information on **business opportunities.** You can contact these organisations to get an idea about a product/ service.

1. District Industry Centres
2. Technical Consultancy Organisations
3. Centres for Entrepreneurship Development
4. Small Industry Service Institutes
5. Leading banks

6. Industrial Extensions Bureaus
7. National Industrial Development Corporation, New Delhi
8. Khadi and Village Industries Commission, New Delhi
9. Commissioner of Cottage Industries
10. Entrepreneurship Development Institute of India, Ahmedabad
11. National Institute of Entrepreneurship and Small Business Development, New Delhi
12. National Institute of Small Industry Extension and Training, Hyderabad
13. Small Industries Development Bank of India, Lucknow

This information could be in the form of

- project profiles;
- feasibility studies;
- industry studies; or
- area development studies.

For a given industry, there are organisations which undertake monitoring, research, market-development, export promotion, and such other work.

You need to get in touch with such organisations. You might get valuable information on your product and the opportunities that exist. In the project conceptualisation stage while making a product choice, the following factors related to the product need to be considered.

- Easy availability of raw-material
- Process technology
- Easy accessibility in the market
- Incentive and support from government
- Product line—depth, width
- Market information
- Packaging
- Branding
- Warranties
- After sales service

Another point to keep in mind while deciding on products is to avoid the ones that are likely to have a number of players in the market. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves, and bulk drugs. In case the entrepreneur is looking for a product which has export potential, he/she should consider the following additional questions.

- What should be the contents of export-product portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a

specific country? Does it meet the product's quality specification of the country concerned?

Consider the following four parameters that can influence the development of export-product portfolio.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

An analysis can be made using this four-dimensional model. A product which scores high on first two parameters and low on the last two parameters should be chosen.

The Export Import Bank of India (EXIM) has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters.

- Supply capability in product group
- Domestic environment
- Export market attractiveness

This analysis gives rise to product groups with high export potential or low export potential. Some high potential areas are given below.

- Leather garments
- Yarns and thread
- Apparel—woven and knitted
- B & W TV sets
- Costume jewellery

With regard to special packaging requirements, the entrepreneur has to be careful about the laws of the country he is exporting to. Product adaptations for a country's specific needs look at things like whether the voltage supply is 220 V or 110 V for electric appliances; whether left-hand drive or right-hand drive is appropriate in case of automobiles, for instance.

(b) Location Selection

One of the major decisions an entrepreneur has to make is about the location of the project—where to set, the unit. Some of the major aspects to be considered before deciding on the location of the project are

- proximity to market;
- availability of raw materials;
- availability of transportation and communication facilities;
- availability of incentives/concessions;
- government policy;
- availability of suitable infrastructure facilities; and
- convenience for the promoter.

For many tiny units and service-based units, home is perhaps the best starting point. However, not all types of SSI units can be set up at home either due to size or the nature of the industry. Then the entrepreneurs may like to locate their business in industrial estates, areas, parks, complexes developed by the concerned State government organisation or private bodies or in a privately leased land subject to approvals by various State and municipal bodies.

State level government agencies assist entrepreneurs in identifying suitable locations/sites for the project, besides helping in the process of getting all the necessary clearances for the project. All utilities such as power, and water supply are available at the site in case the units are located in any of the industrial estates developed by these agencies. Of late, the private sector has also got into development of industrial parks—in Mahindra World City, Chennai, Tamil Nadu the Mahindra Auto-ancillary Park developed jointly by the Mahindra group and TIDCO being an example.

Ideally, identify two or three locations and then select a few possible sites at each of these locations. Next, compare these locations/sites in relation to your requirements. checklist of points to be considered for evaluation of land/sites are as follows.

General considerations

- Location (city/town/village)
- Nearest large city (name and distance)
- Connections to nearest and major cities (rail, road, air)
- Distance from important geographical markets and to relevant ports (in case of export-import-oriented enterprises)
- Distance from major raw material sources
- Availability of manpower with required skills and prevailing wage rates
- Law and order situation in the area
- Level of industrial development in the area and anticipated speed of development
- Composition on industrial development (in terms of types of industry and size/health of existing enterprises)
- Whether built-up factory shed is available at the location and whether its size conforms to your need

Industrial infrastructure position

- Land: availability and price
- Existence of an organised industrial estate
- Water supply: source (river, canal, tube well), distance, quality (ph, hardness), rate, common storage facility, operating authority (public works department, estate-corporation, municipality)
- Power supply: nearest substation, feeder type (industrial/rural) availability, quality of power
- Effluent treatment and disposal (if relevant): disposal point (land, sea, river), arrangement for treatment (individual, common), drainage arrangement for

conveying the effluent (open, underground), treatment and conveyance charges

- Approach road/internal roads, street lighting
- Responsibility for maintaining roads, drainage and street lighting (single or multiple agencies)
- Postal, telegram and telecommunication facility (availability of new telephone connections, manual or automatic exchange, STD facility, telex facility, and so on.
- Bank facility
- Transport-operator facility
- Typing/photocopying
- Warehousing facility (if required)
- Proximity of offices of law-enforcing agencies (excise, sales tax, labour laws, factory inspection, pollution control, and so on), proximity of offices of industry-assisting agencies (State Financial Corporation, industrial infrastructure corporation, raw material/marketing corporation, district industries centre which sanctions and disburses financial incentives)
- Building/electrical/fabrication contractor facility
- Shops for building material, spare parts and other such things
- Motor rewinding, painting, gas supply and other such industrial services
- Professional resource position (management/industrial consultants, financial/legal advisers, management/productivity associations)

Financial incentive position

- Investment subsidy (Central government/State government)
- Income tax concession
- Sales tax exemption/interest-free sales tax loan
- Promoter's contribution (margin) and interest rate policy followed by State Financial Corporation
- Octroi exemption, electricity duty exemption, local tax exemption, and other such incentives.

Social infrastructure position

- Housing: availability, quality, price (ownership and rent), public housing (actual and planned housing by State Housing Board, infrastructure corporation or such other agencies)
- Education: primary, secondary and university education facility (quality, number of seats, ease of admission, medium of instruction)
- Health: dispensary, hospitals, specialties

Site-specific considerations

- Vantage or otherwise location (for example, on the highway), frontage, approach and so on.
- Direction of town growth with reference to the site

- Non-agricultural status of the site
- Site contours (levelled, hilly, pits, ravines, brick kilns), site shape (regular/irregular)
- Proximity to railway line, national highway, state highway. (This may imply leaving out some portions of a plot for building purpose).
- Overhead telephones or power lines or underground water/drainage/gas line passing through the site. (This may imply leaving out some portions of a plot for building purposes).
- Access to National/State highway or other roads provided by the State
- Wind direction in relation to the site (In India, normal wind direction, except during winter, is north south. If there is a dense population concentration in south, a factory in the north with gas/smell emission may cause a problem).
- Soil type. (Loose soil may increase construction cost).

Omit the items in list, depending on circumstances, points or items that are not very relevant to your project. Similarly, in many cases just preliminary or qualitative information may be enough.

(c) Project Feasibility study

The important facets of a project feasibility study are as follows. (See Figure 5.2)

- Market analysis
- Technical analysis
- Financial analysis
- Economic analysis
- Ecological analysis

Market analysis

Market analysis is concerned primarily with two questions—

- What would be the aggregate demand of the proposed product/service in future?
- What would be the market share of the project under appraisal?

To answer the above questions, a market analyst requires a wide variety of information and appropriate forecasting methods. The kinds of information required are given below.

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behaviour, intentions, motivations, attitudes, preferences, and requirements

- Distribution channels and marketing policies in use
- Administrative, technical, and legal constraints

Technical analysis

Analysis of the technical and engineering aspects of a project needs to be done continually when a project is formulated. Technical analysis seeks to determine whether the prerequisites for the successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, process, and so on. The important questions raised in technical analysis are given below.

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

Financial analysis

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

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

Economic analysis

Economic analysis, also referred to as social cost-benefit analysis, is concerned with judging a project from the larger, social point of view. In such an evaluation the focus is on the social costs and benefits of a project, which may often be different from its monetary costs and benefits. The questions sought to be answered in social cost-benefit analysis are as follows.

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

Ecological analysis

In recent years, environmental concerns have assumed a great deal of significance. Ecological analysis should be done, particularly for major projects which have significant ecological implications like power plants and irrigation schemes, and for environment–polluting industries (like bulk drugs, chemicals, and leather processing.). The key questions raised in ecological analysis are as follows.

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

Figure 5.2 gives a schematic diagram for a project feasibility study.

(d) Business Plan Preparation

A business plan is a document where you plan your business to have an organised and effective response to a situation which may arise in future. Business plan is not just for a start-up company but also for those which are growing. It can be used it to establish realistic goals or targets to achieve and to determine the current position. A business plan is used to help make crucial start-up decisions; to reassure lenders, investors or backers; to measure operational progress; to test planning assumptions; to adjust forecasts; and to set the standard for good operational management. A workable business plan has the following features.

- Determines where the company needs to go
- Forewarns of possible roadblocks along the way
- Formulates responses to contingencies
- Keeps the business on track to reach its planned goals

Start a business plan with describing your business and product or services. Indicate the market you are targeting and the stage of development your company is in. If you get stuck at a particular part of the plan, leave it for a while and get back to it later and finish it. You can not make a perfect first draft. So just get some thoughts down to start the process. You can always come back and change it or polish it up later. While making a business plan keep the following points in mind.

Keep target audience in view

While writing your business plan, keep in mind the intended audience and why you are writing the plan. For example, if you are trying to get debt financing, the emphasis

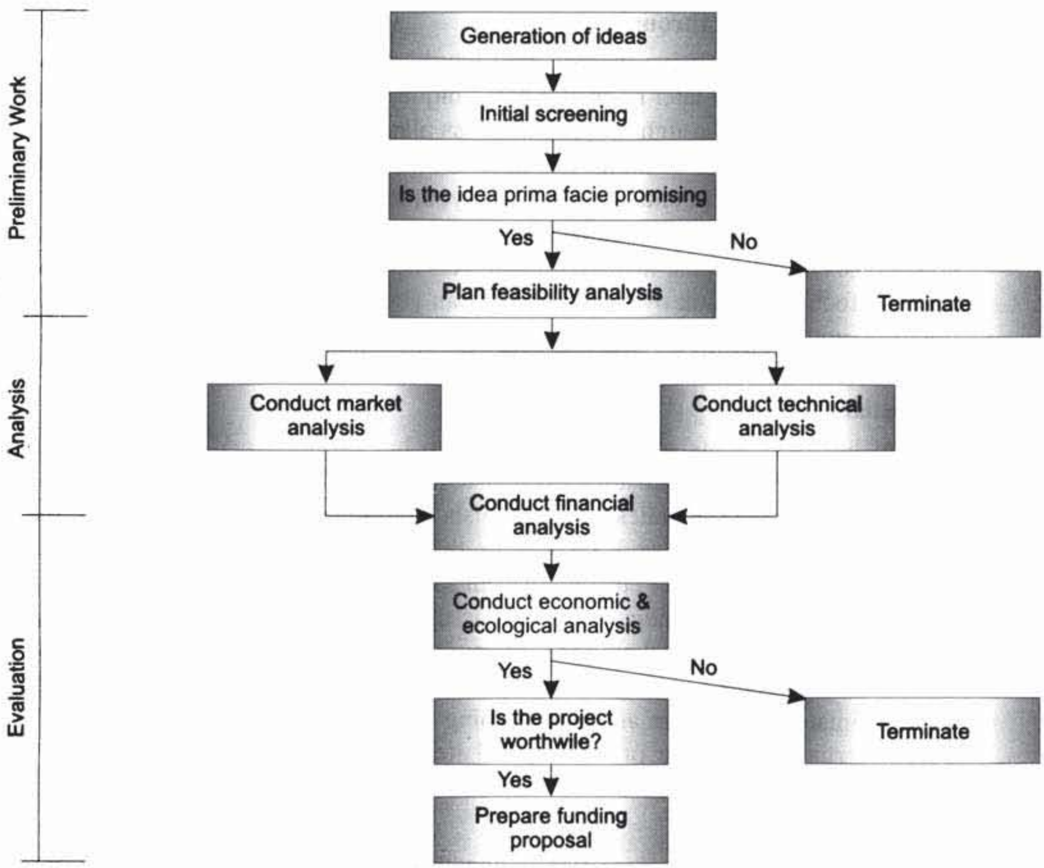


Figure 5.2 ■ Project feasibility study: a schematic diagram

should not be on the huge profit potential but on the certainty that the debt can be repaid. If you are writing a plan to help you run the business better, you may start with general background information on the company and the industry, and focus on the areas of your plan that are currently most important to you.

Strategy—core of a business plan

Basically, the first part of the business plan should be geared towards helping develop and support solid business strategy. The plan should explain the market, the industry, target customers, and competitors. Write about customer needs and the benefits of current products and services. Evaluate the strengths and weaknesses of each competing firm and draw out the opportunities for your product or service in the marketplace. All of these steps largely aim to help you in creating a strategy for your business.

The second half of the business plan should explain how to execute your selected business strategy. Your products, services, marketing and operations should all closely tie in with your strategy. Have a strategy that will set the course for your business rather than having a smart-sounding strategy for your plan.

Think competitively throughout

In the present competitive market, you would probably be facing some serious competition sooner or later no matter how unique your business idea is. You need to think competitively throughout your business plan. As an entrepreneur, you need to identify where you will do things in a manner similar to your competitors and where you will do things differently, what will be your real strengths and real weaknesses, where will you create your niche. Focus your plan on being different than your competitors' and compete with existing players less directly. Find a particular market niche to focus on. Think over the points—can you find a unique strategy? Can you position your products differently? Can you use different sales or marketing vehicles? Your business plan should be able to answer these questions.

Be realistic

Lots of business plans sound good on paper, but do not work in the real world marketplace. It is difficult to attract people to a new product or service just because it is better. People or companies have established buying patterns and would be doing business with someone else. It takes more than attracting them to do business with you. You have to steal your customers from someone else's business and create your own base of loyal customers. It is possible that your competitors may launch new products or services or cut their prices to counter your entry in the current market. For a new start-up company it is just as easy to overestimate sales projections as it is to underestimate costs. There are always going to be some unseen expenditure, hefty cost overruns, expensive problems, and items that you simply overlooked. So forecast conservatively and try to have an extra cushion of cash tucked in reserve.

Involve people

There are two types of business plans—one, those intended as roadmaps for starting, operating, and growing a business and two, who those intended as sales documents for raising capital, attracting investors, securing bank loans or securing an operating line of credit from suppliers. In seeking funds from banks, venture capitalists or other outside investors, the chances of success are greater if your management team includes a person whose name carries some weight. Alternately, you can include as exhibits to your plan any positive media clippings you can find—such as items from trade publications—about members of your management team. If you do not have any clippings, try contacting relevant publications to get media coverage—perhaps about your start-up business proposal.

Involve key employees or expert opinion to create the business plan. Then work with them until you are satisfied. Have key people get together, to get the plan in synchronized fashion, and to get any disagreements, out in the open. The more input people have in creating the plan, the more responsibility they will feel towards it.

Factual and succinct

Keep your business plan factual and succinct. Do not use hyperbole or generalisations to describe the potential of your business plan. Do not put too much detail when creating plans. If a business plan is too long, it might be skimmed and focus on what is really important might be lost. As a general rule, if you are going to a bank or an individual investor, no more than 30–40 pages is adequate, including the supporting documents section.

The key questions

A business plan is a document, which provides flesh and blood to your business idea. It focuses on the following.

Product, Features, Capacity, Uses

1. What are you going to make?
2. What sizes/specifications—legal or commercial—will your product have?
3. On what scale will you make it? How many days in a year and how many hours per day will your enterprise operate?
4. What are the various uses of the product?

Market Prospects, Selling Price, and Cost of Selling

1. Who are the customers?
2. What is the present supply position?
3. What are the market prospects?
4. What kind of competition are you likely to face?
5. How much do you expect to sell during the first couple of years?
6. What price do you expect to realise in the initial years?
7. What arrangements should one make for selling the product? How much will these cost?

Production Process and Technical Arrangements

1. Are there alternative production processes? Which one would you choose? What would be your source of technical know-how?
2. Do you expect any difficulty in terms of mastering production, technology? If yes, how long will it take you to master it?

Plant and Machinery, Suppliers and Cost

1. What machinery/equipment would you need for production?
2. What support-equipment like boilers, electrical installations, quality-control equipment, and effluent-treatment equipment would you require?
3. How much will each of these machines produce?
4. Will any machine remain idle or become a bottleneck in achieving the final output quantity?
5. Who are the suppliers of the machinery?
6. What would be the prices of the machinery?
7. How long will the suppliers take to deliver the machinery?

Location

1. Where will you locate the project?
2. What are the advantages/disadvantages of the chosen location?

Infrastructure Facilities

1. How much land would you need?

2. How much built-up area would you require?
3. Are there any special features of the factory shed?
4. How much electricity, water, fuel, and steam would you require? And how much would these cost?
5. What arrangements have you made to get these?

Raw Materials and Other Requirements

1. What is the requirement in terms of raw materials, stores, consumables, and packing material?
2. Are they easily available?
3. Who are the suppliers?
4. What is the price? How volatile is the price? Does it change according to the season?

Manpower

1. What is the manpower need (skills, number)?
2. How easy is it to get manpower?
3. What salary/wage would they be paid?

Working Capital

1. What is the amount of money required, once your enterprise is set up, to keep the business running?
2. What is the bank policy regarding working capital assistance for such a business?
3. How much working capital assistance from the bank do you expect?

Project Cost

What will be the total cost of establishing the enterprise?

Means of Finance

1. What are the various sources from which money will be raised to meet the project cost?
2. How much money will be raised from each source?

Capacity Utilisation and Income Estimates

1. What will be the growth of the business over the next five to eight years?
2. What will be, year-wise, the income from the main business?
3. What will be, year-wise, other income (sale of by product, interest, and so on.)?

Expenditure

1. What will be, year-wise, the expenditure on account of production, sale, and administration over the next five to eight years?
2. What will be the non-cash and interest expenditure, year-wise, during such period?

Profit and Tax

1. What will be the profit before tax, year-wise, over next five to eight years?
2. What will be the tax liability?

3. Is the expected profit enough to repay the term loan and bring you an attractive return on your investment?

Risk Analysis

1. What are the risk factors of the enterprise?
2. How risky is the enterprise?

Other Questions

1. What are the government policies regarding this particular business?
2. What government clearances/approvals do you need?
3. How long will it take you to establish the enterprise?

Table of Contents of a Business Plan

I. Title Page

II. Executive Summary
- Vision and Mission Statement
- Fact Sheet

III. Company Plan
- Company Description
- Merchandising Plan
- Operating Plan
- Organisational Plan

IV. Marketing Plan
- Market Description and target market
- Competition analysis
- Methods of distribution
- Advertising
- Pricing
- Product/service design
- Timing of market entry
- Industry trends

V. Financial Plan
- Summary of financial needs
- Sources and uses of funds
- Cash flow statement
- Three year income projection
- Break even analysis
- Balance sheet
- Income statement
- Risk assessment
- Business financial history

VI. Supporting Documents
- Personal resumes
- Personal financial statement
- Credit reports
- Copies of leases
- Letters of reference

A sample business plan is given in Annexure 5.1.

Why Some Business Plans Fail

1. Goals set by the entrepreneurs are unreasonable.
2. Goals are not measurable.
3. The entrepreneur has not made a total commitment to the business or to the family.
4. The entrepreneur has no experience in the planned business.
5. The entrepreneur has no sense of potential threat or weakness to the business.
6. No customer need was established for the proposed product or service.

Visit www.pipdic.com to learn more about the procedure for starting a small-scale industry and Visit www.bplans.com to get a copy of a free sample business plan and business plan software.

(e) Project profile

A project profile gives a bird's-eye view of the proposed project. This may be used for obtaining the Provisional Registration Certificate (PRC) from the District Industries Centre and for making, applying for Industrial Areas Development Board for land or State Small Industries Development Corporation (SSIDC) for shed and other infrastructures. A sample of a project profile of glycerine is given in Annexure 5.2.

Box 5.4 Information Heads in a Project Profile

- Introduction
- Promoter(s) Background (education, experience, and so on)
- Product(s) description (specification, uses, and so on)
- Market and marketing
- Details of infrastructure needed
- Plant and machinery (description, capacity, cost, and so on)
- Process details
- Raw materials (requirements, specification, cost, and so on)
- Manpower required (type of personnel required and salaries/wages)
- Cost of the project and means of finance
- Cost of production and profitability

DISCUSSION FORUM

- Draw a flowchart showing the formalities for starting a small business enterprise.
- Discuss in small groups the various stages involved in selection of a project.
- Draw a schematic diagram of a project feasibility study.
- Why is a business plan so important to the entrepreneur? To the investor? To the customer? To suppliers?
- Explain the contents of a business plan.
- Why do some business plans fail?

2. Decide on the Constitution

Many first-time entrepreneurs do not have a clear perspective of the issues, legal or otherwise, involved in choosing one or the other form of a business. This often results in avoidable mistakes, which later cost time and money to rectify. The options of the form of business with their pros and cons have been explained below. In India setting up a private limited company is the most popular choice among entrepreneurs.

To start an industry, the promoter(s) have to decide on the constitution of the unit. There are four major alternatives.

SNAPSHOT

To start an industry the promoter(s) have to decide on the constitution of the unit. There are four major alternatives.

a. Sole proprietorship
b. Partnership
c. Corporation/Limited company
d. Cooperative
e. Franchising

a. Sole proprietorship
b. Partnership
c. Corporation/Limited Company
d. Cooperative
e. Franchising

The constitution of the unit has to be decided at the initial stages of the project and the necessary formalities should be completed by the time the application for Provisional Registration Certificate is made.

(a) Sole Proprietorship

A single individual is the owner of such a unit. The vast majority of new businesses set up each year in India are sole proprietorships. The form has the merit of being relatively formality-free; there are no rules about the records to keep. Nor is there a requirement for the accounts to be audited, or for financial information on the business to be filed with the registrar of companies. The proprietor may proceed to obtain a Provisional Registration Certificate from the District Industries Centre.

As a sole proprietor, there is no legal distinction between you and your business—your business is one of your assets, just as your house or car is. It follows from this that if your business fails, your creditors have a right not only to the assets of the business, but also to your personal assets, subject only to the provisions of the Bankruptcy Act which allow you to keep only the absolutely basic essentials for yourself and family.

It is possible to avoid the worst of these consequences by ensuring that your private assets are the legal property of your spouse, against whom your creditors have no claim. You must be solvent when the transfer is made, and that transfer must have been made at least two years prior to your business running into trouble. However, to be effective, such a transfer must be absolute and you can have no say in how your spouse chooses to dispose of his or her newfound wealth!

You must either have the capital to get the business going or get a loan. There is no access to equity capital, which has the attraction of being risk free. In return for these drawbacks you can have the pleasure of being your own boss immediately, subject only to declaring your profits in your tax return. In practice it would be wise to take professional advice before doing so.

Although there is nothing you are required to do legally as a sole proprietor, it is sensible to do the following.

- Open separate bank accounts for the business. Do not pay for business expenses from personal accounts. Also, withdraw money for your personal expenses regularly from the business accounts.
- Get your accountant to give you some indication of permitted business expenses.
- Take out full insurance cover against possible loss or damage to any equipment, if you have invested in any.
- Take out personal injury/illness insurance.

The advantages and disadvantages of being a sole proprietor are as follows.

Advantages

- Easy to set up. You can start the business in a small way, from your home if you want to.
- You are the boss. You can run the business at your own pace and in your own way.
- Your keep the profits.
- You can offset some business expenses against earnings for tax purposes.
- No public disclosure of your affairs.
- Profit or loss in one trade can be set off against profit and loss in any other business you run.

Disadvantages

- You are totally responsible for any debts your business incurs. If you go bankrupt, your creditors are entitled to seize and sell your possessions—personal as well as business.
- It can be lonely.
- You have to be very flexible.

Most countries have sole proprietorship as a legal structure in the way described here. Some countries have variations of the same theme. For example, in France, where nearly 70 per cent of all active businesses are operated as sole trader-ships, husbands and wives may be jointly responsible. In the United Kingdom, husbands and wives need to form either a partnership or a limited company to share the "ownership" of a venture.

(b) Partnerships

A partnership firm is an association of two or more persons, subject to a maximum of 20 persons. Partnership firms are governed by the Indian Partnership Act, 1932, and rules framed thereunder by the State Government. It is advisable to have a Partnership Deed Agreement.

Partnerships are effectively collections of sole proprietors and, as such, the legal problems are not attached to personal liability. There are very few restrictions to setting up a business with another person (or persons) in partnership, and there are several definite advantages. By pooling resources you may have more capital. You will be bringing, it is to be hoped, several sets of skills to the business. If you are ill, the business can still carry on.

There are two serious drawbacks that merit particular attention. First, if your partner makes a business mistake, perhaps by signing a disastrous contract, without your knowledge or consent, every member of the partnership must shoulder the consequences. Under these circumstances, your personal assets could be taken to pay the creditors even though the mistake was no fault of yours.

Second, if your partner goes bankrupt in his personal capacity, for whatever reason, his creditors can seize his or her share of the partnership. As a private individual you are not liable for your partner's private debts, but having to buy him or her out of the partnership at short notice could put you and the business in financial jeopardy. Even death may not release you from partnership obligations and in some circumstances your estate can remain liable. Unless you take "public" leave of your partnership by notifying your business contacts, and advertising your retirement, you will remain liable indefinitely.

The legal regulations governing this field are set out in the Partnership Act, which in essence assumes that competent business persons should know what they are doing. The Act merely provides a framework of agreement, which applies "in the absence of agreement to the contrary". It follows from this that many partnerships are entered into without legal formalities—and sometimes without the parties themselves being aware that they have entered a partnership!

Registration Formalities

For registering a partnership firm, an application in the prescribed form has to be submitted to the Registrar of Firms, along with the authenticated copy of the partnership deed (on stamp paper of appropriate value) and the prescribed fee. The Registrar of Firms will record any entry of the statement after scrutiny of the application and issue a certificate. This may take about 15 days.

The main provisions of the Partnership Act are as follows.

- All partners contribute capital equally.
- All partners share profits and losses equally.

- No partner shall have interest paid on his or her capital.
- No partner shall be paid a salary.
- All partners have an equal say in the management of the business.

It is unlikely that all these provisions will suit you so you would be well advised to get a "partnership agreement" drawn up in writing by a solicitor at the outset of your venture.

Advantages of Partnership

- A means of starting up with increased capital (presuming both you and partners put money in).
- You might not feel confident to start a business entirely on your own and would prefer to share the responsibilities with someone else.
- You have complementary skills—one of you may have specialist skills and the other management flair, or one the money, the other the ideas.

Choosing a Partner

If the business is going to have any chance of success, if is essential that the partners trust each other and can work together harmoniously. Also, since you and your partner(s) have unlimited financial liability for the firm, if things go wrong, regardless of whose fault it is, creditors can claim the personal possessions of each and every partner. A partnership is therefore almost as close a relationship as a marriage. So the choice of a partner must be made with as much care as selecting a wife or husband!

If you are considering a partnership, ask yourself first if you have the right temperament to be a partner. There are no hard and fast rules about selecting a partner, but the most successful partnerships do seem to be those where the partners have known each other for some time—either as friends or business associates—and where they have complementary skills and personalities. For instance, one partner may be a technical person who can look after the manufacturing side of the operation while the other is good at dealing with people and can look after sales, or the combination may be of a person with ideas and a down-to-earth sort of person who can implement them. Matching entrepreneurial skills also helps in selecting a partner.

Partnership Agreements

As already stated, the provisions of the Partnership Act apply if there is no other agreement between the partners. However, it is sensible, if not essential, to get a solicitor to draw up a deed of partnership between you and your partners. You may want to vary the rules laid down in the Partnership Act and cover points not mentioned. This document also regulates exactly how the business is to be run. It should cover the points listed below.

- *Profit sharing*: How profits and losses are to the divided. If, for example, one partner has sunk more capital into the business than the other, profits will not be shared in equal proportions. Or, you might decide to distribute profits according to the number of contracts completed, the number of hours worked, or by some other method.

- *Withdrawing money*: It is important to limit the amount of money each partner can take out of the business each month, otherwise you may find you have insufficient working capital.
- *Time off*: The length and frequency of holidays should be laid down, as well as what rules apply if a partner is incapacitated through illness. The partner will be entitled to a share of the profits, so you may consider it important to stipulate a time limit after which the partnership can be dissolved.
- *Duration of partnership*: How long do you want your partnership to last—one, three, five or ten years? Or you might prefer it to be for an indefinite period, terminating after a three-month notice.
- *Admitting or expelling a partner*: The consent of every partner is necessary before a new partner can be admitted. If you want the right to have a relative, say your wife, admitted as a partner later, this should be stated in the agreement. Unless the agreement states otherwise, you must get a court order if you want to expel a partner. So the partnership deed should set out in detail the circumstances in which a partner can be expelled.
- *Dissolving or rescinding the partnership*: Dissolution will occur automatically on the death or bankruptcy of a partner, unless the partnership agreement provides otherwise. If you discover your partner has given you false information, you may apply to the court to rescind the partnership agreement.
- *Getting capital out*: When dissolution occurs, a partner is entitled to have the partnership property sold and all assets distributed. After the assets have been realised and outstanding debts paid, any surplus must be distributed among the partners equally—unless you make a different arrangement in the partnership deed.
- *Notice of withdrawal from a partnership*: The agreement should state how much notice should be given to each of the other partners if one partner wants to withdraw. Remember, if you are withdrawing, you are still responsible for all obligations your firm incurred while you were a partner. Give notice to all customers and suppliers that you are withdrawing and make sure your name is removed from the stationery. Advertise the fact in a newspaper.
- *Conflicting interests*: Partners are free to engage in other business activities unless the partnership agreement prohibits this. However, no partner may engage in any activity which competes with the partnership business. It might be sensible to provide for limited partnerships.

(c) Corporation/Limited company

Company

A company may be either private limited or public limited. A private limited company can be formed with a minimum of 2 persons and a maximum of 50 persons. A public limited company can be formed with a minimum of seven persons and the maximum of persons is unlimited. The companies are governed by the Companies Act, 1956.

As the name suggests, in this form of business your liability is limited to the amount you contribute by way of share capital. A company registered in accordance with the Companies Act is a separate legal entity, distinct from its shareholders, directors, and managers. The liability of the shareholders is limited to the amount paid or unpaid on issued share capital. A company has unlimited life and no limit is placed on the number of shareholders. The Companies Act does, however, place many restrictions on the company. It must maintain certain books of accounts, appoint an auditor, and file an annual return with the registrar of companies, which includes the accounts as well as details of directors and mortgages.

A minimum of three shareholders and one of these as managing directors is required to form a company. There are, in fact, two types of companies limited by shares. The first is a public company (PLC) which has a minimum authorised and allotted share capital. This is a company which, according to its memorandum of association, may invite the public to subscribe for its shares. Any company, which is not "public", is called "private". Public companies have further onerous legal requirements and restrictions placed upon them. Generally, most companies start out as private and become public when they need funds from a wider range of shareholders. Companies pay a corporate tax on their taxable profits.

Advantages of the Limited Company

- Members' (the directors and shareholders) financial liability is limited to the amount of money they have paid for shares.
- The management structure is clearly defined, which makes it easy to appoint, retire, or remove directors.
- If extra capital is needed, it can be raised by selling more shares privately.
- It is simple to admit more members.
- The death, bankruptcy or withdrawal of capital by one member does not affect the company's ability to trade.
- Disposal of the whole or part of the business is easily arranged.

Disadvantages

- Requirement to register the company with the registrar of companies and provide annual returns and audited accounts. All details of the company are available for public inspection, so there can be no secrecy. There are penalties for failing to file returns.
- Can be more expensive to set up.
- May need professional help to set up.
- As a director you are treated as an employee and must pay tax.
- Banks, finance house, landlords and suppliers who require personal guarantees from the directors before they will do business are increasingly undermining the advantages of limited liability status.

Requirements for a private limited company

1. *A registered business name*: This must be followed by the word "Limited" or "Ltd." The Companies Registration Office exercises some control over the choice of

name—it cannot be identical (or very similar to) the name of an existing company. It will not be considered if it is offensive or illegal and the use of certain words in a company (for example, "Institute", "National") can only be used in certain circumstances. The company name must be displayed in a conspicuous place at every office, or other premises where the company carries out its business.

2. *A registered office*: This need not necessarily be the same address as the place the business is conducted from. Quite frequently the address used for the registered office is that of the firm's solicitor or accountant. This is the address, where all official correspondence will go.

3. *Shareholders*: There must be a minimum of two shareholders (also described as "members" or "subscribers"). A private company can have up to 50 shareholders.

4. *Share capital*: The company must be formed with a stated, nominal share capital divided into shares of fixed amounts. Small companies are frequently formed with a nominal share capital of Rs 100.

5. *Memorandum of Association*: The memorandum is the company's charter. It states the company's name; the address of its registered office; its share capital; the fact that liability is limited and, most importantly, the object for which the company has been formed. In theory, the company can only operate in the areas mentioned in the objects clause but in practice the clause is drawn to cover as wide an area as possible. A 75 per cent majority of the members of the company can change the objects whenever they like. Nevertheless, it is worth bearing in mind that the directors of the company will incur personal liability if the company engages in a type of business which is not authorised by the objects clause. The memorandum must be signed by at least three shareholders.

6. *Articles of Association*: The document contains the internal regulations of the company—the relationship of the company to its shareholders and the relationship between individual shareholders. Many companies do not bother to draw up their own articles but adopt (sometimes with modifications) articles set out in the Companies Act, which are quite satisfactory for the majority of private companies. The initial shareholders must sign the articles.

7. *Certificate of Incorporation*: This is the document issued by the registrar of companies once he has approved your choice of name and your memorandum. Once you receive this document, your company has a legal existence and is ready to trade.

8. *Auditors*: Every company must appoint a qualified auditor. The auditor's duty is to report to the treasurer whether or not the books of the company have been properly kept, and that the balance sheet and profit and loss account presents (or does not present) a true and fair view of the company's affairs and complies with the Companies Act. Auditors are appointed or re-appointed at general meetings at which annual accounts are presented, and they hold office from the conclusion of the meeting until the next general meeting.

9. *Accounts*: The companies Act lays down strict rules on accounting. Every company must maintain a set of records which show the financial position at any one time with reasonable accuracy. The accounts comprise a profit and loss account and

balance sheet with the auditors' and directors' reports appended. A new company's accounting reference period begins on its incorporation and runs until the following March 31, unless the company notifies otherwise to the registrar of companies. Within ten months of the end of an accounting reference period, an audited set of accounts must be laid before the shareholders at a general meeting and a set delivered to the registrar of companies.

10. *Registers:* In addition to the accounts books, companies are required to have a register of members and share ledger; a register of directors and secretaries; a register of share transfers; a register of charges; a register of debenture holders. A book can be purchased to hold all of the above. This will be provided automatically if you buy a running concern.

11. *Company seal*: All companies must have an engraved seal. This must be impressed on share certificates and must be used whenever the company has to execute a deed. Again, this is included in the readymade company package.

Registration Formalities

Firstly, an application for acceptability of the proposed name of the company is to be made. The name should not be similar to the name of any other company already incorporated. The applicants should follow the Emblems and Names (Prevention of Improper Use) Act, 1954.

After the name of the company is approved, following steps have to be taken.

1. Draft Memorandum and Articles of Association have to be submitted to the registrar of companies for scrutiny.
2. After the scrutiny, Memorandum and Articles of Association are to be printed on the prescribed value of stamp paper.
3. In the case of a private limited company, Memorandum and Articles of Association should be signed by at least two subscribers and in the case of a public limited company by at least seven subscribers. In the case of Non-Resident Indian subscribers, signatures on the Memorandum and Articles of Association have to be attested by the concerned Indian Embassy.

An application in the prescribed form has to be made along with the prescribed fees along with the following documents.

1. Three copies of Memorandum and Articles of Association.
2. A copy of the agreement, if any, referred to in the Articles of Association.
3. Agreement, if any, for appointment of a managing director or whole-time director.
4. A power of attorney signed by all the subscribers on prescribed stamp paper, to collect the Certificate of Incorporation.
5. A copy of the letter by the registrar of companies approving the name.
6. Form No.14 on prescribed stamp paper, signed by the directors and the chartered accountant regarding compliance of various provisions.
7. Form No.18: location of registered office.
8. Form No.29: director's consent (in the case of public limited company).

9. Form No. 32: appointment of directors, in duplicate.
10. A copy of approval/sanction, if any obtained under any other law.
11. A filing fee, as applicable to the company, depending on the share capital.
12. Contribution from NRI(s) by way of share capital or otherwise should have the approval of the Reserve Bank of India.

Normally, it takes about 14 days for getting the approval of the name. About 14 days are required for scrutiny of Memorandum and Articles of Association and thereafter it takes about 14 days for issuing the Certificate of Incorporation.

(d) Cooperatives

A cooperative is an enterprise owned and controlled by the people working in it. Once in danger of becoming extinct, the workers' cooperative is enjoying something of a comeback. Cooperatives are governed by the State Cooperative Societies Act and Multi-State Cooperative Act, 2002, the main provisions of which state that

- each member of the cooperative has equal control through the principle of "one person one vote";
- membership must be open to anyone who satisfies the stipulated qualification;
- profits can be retained in the business or distributed in proportion to members' involvement, for instance, hours worked;
- members must benefit primarily from their participation in the business; and
- interest on loan or share capital is limited in some specific way, even if the profits are high enough to allow a greater payment.

It is certainly not a legal structure designed to give entrepreneurs control of their own destiny and maximum profits. However, if this is to be the system adopted, you can register with the registrar of companies. You must have at least seven members at the outset. They do not have to be full-time workers at first. As in a limited company, a registered cooperative has limited liability *(see under limited liability companies)* for its members and must file annual accounts though there is no charge for this. Not all cooperatives bother to register, as it is not mandatory, in which case they are treated by law as a partnership with unlimited liability.

Cooperatives are not common throughout the entire entrepreneurial world, although some countries provide for companies with a structure similar to the Indian-style cooperatives.

(e) Franchising

Franchising is something of a halfway house, lying between entrepreneurship and employment. It holds many of the attractions of running a small business whilst at the same time eliminating some of the more unappealing risks. For example, the failure rate for both franchisers and franchisees is much lower than for the small business sector as a whole.

A franchise is a system of distribution that enables the supplier (called the franchiser) to arrange for a dealer (called the franchisee) to handle a specific product or service under certain mutually agreed upon conditions. The franchiser is a company which has developed and thoroughly tested its business methods and has decided to increase the size of its business by offering individuals, the franchisees, the right to trade under its business name. The individuals concerned pay a fee, not only for the right to trade under the name of the franchiser, but also in order to benefit from its expertise. The franchisee can be a sole proprietorship, partnership, or a private company.

Business Format Franchising

The term "franchising", which is borrowed from French, originally meant being free from slavery. Today, business format franchising is the name given to a relationship in which the owner of a product, process, or service allows a local operator to set up a business under that name, for a specified period of time. The local operator (franchisee) pays the parent organisation (franchiser) an initial fee and, usually, continuing royalties for the privilege.

The franchiser lays down a blueprint on how the business should be operated: the content and nature of goods and services being offered, the price and quality of these goods, and even the location, size and layout of any premises to be used.

The franchiser also provides the franchisee with training and other back-up support, such as accounting systems, advertising programmes, and personnel recruitment and selection advice. In essence, franchising thrives because it merges the incentive of owning a business with the management skills of a big business. And personal ownership is one of the best incentives yet created to spur hard work.

Franchising may benefit not only the franchisee but also the franchiser. For example, it may enable the franchiser to grow rapidly by using other people's (that is, the franchisee's) money. That is largely how giant franchisers like McDonald's and Baskin-Robbins have mushroomed into billion-dollar businesses in so short a time.

The idea that franchisees are independent business people is something of a myth. Franchisees generally are not free to run their business as they see fit. They are often hamstrung by the franchiser's policies, standards, and procedures.

People who want their own business to escape taking orders from others frequently see franchising as the answer. They are subsequently frustrated by lack of autonomy.

Major Factors Influencing Franchising

According to experts, six major factors will influence the growth and expansion of franchising.

- A leveling off of sales growth among franchise outlets in the traditional fields such as fast food, hotels, bakeries, greeting cards, and gift shops.
- Continuing rapid growth and expansion of service type businesses, for example, childcare, business aids, and services.
- Conversion of independent businesses to franchises – like shirt bands.
- Globalisation of franchising-franchise companies in USA will continue to expand overseas, for example, McDonald's, Pizza Hut, and Kentucky Fried Chicken in India.
- An increasingly mature and diversified franchise company.

Types of Franchising Arrangements

1. Franchising of a product or service In this type of franchising, the franchisee receives a product from the franchiser and sells it through a wholesale or retail outlet. If it is a service, he/she agrees to provide the service from his own premises with a license from the franchiser for using the trade name.

2. Franchising of an entire business enterprise Here the franchisee operates under the trade name of the franchiser in a particular area mutually agreed upon, for example, McDonald's in Delhi, Mumbai, Bangalore, and other cities. In this type of a case, the business operation, appearance of establishment, merchandise, and even operating procedures and service are standardised to a high degree.

Franchise: Pros and Cons

The advantages and disadvantages of taking up a franchise depend to some extent on the content of the agreement, but there is a core of balancing factors, which are largely common because they relate to the kind of activity which franchising involves.

The Franchiser

Advantages From the franchiser's point of view, the advantages are that he does not have any direct investment in an outlet bearing his name. The inventory and equipment are owned by the franchisee. Because of the shortage of prime sites, there is a growing trend for franchisers to acquire leases on behalf of franchisees or, at any rate, to stand as guarantors. Nevertheless, the effect on the liquidity of the franchiser, in contrast to expansion by opening branches, is enormous. Though if the franchiser does his job properly, then there are heavy start-up costs in piloting the franchise and in such aspects as training. Thereafter there are further costs in providing a continuing service to franchisees in such matters as research and development, promotion, administrative backup and feedback, and communication within the network. The expectation is that these costs will be offset by the fact that the franchisee, as the owner of the business, is more likely to be highly motivated than an employee and more responsive to local market needs and conditions; that the franchiser receives an income from the franchise; and that, without direct financial involvement, he may derive some of the benefits of expansion, in as much as franchising provides economies of scale from centralised purchasing and, where feasible, some degree of centralised administrative facilities.

Disadvantages The disadvantages are that, although the failure of an individual franchise may reflect badly on the franchise operation as a whole, all the franchiser can control is the format itself. He can only influence the running of individual operations by pulling the reins on this or that clause in the agreement, the broad terms of which we shall discuss shortly. In extreme cases, the franchiser may terminate the agreement or at any rate not renew it, but he cannot throw the franchisee out as if he were an employee. The franchiser is therefore dependent on the willingness of the franchisee to observe the rules and play the game. Failure to do so can be damaging to the franchiser and the franchisee as a whole.

Another disadvantage sometimes turns out to be in the curious mixture of dependence and independence that franchising produces. The franchisee is encouraged to think of him as an independent business entity, and to a large extent this is indeed the situation. Nevertheless, he is operating the franchiser's business concept under a license for which a fee is payable. There are cases where franchisees identify so closely with the particular business they are running that they ultimately resent the payment of the fee. The success is felt to be due to the franchisee's own effort, not to the franchise concept or to the franchiser. This is apt to be particularly so if the franchiser adopts a lower profile than he should, either in terms of direct help or in matters such as national advertising. Clearly, of course, the franchisee would be obliged to pay under the terms of agreement, but a sour relationship is not good for either party. So it is up to the franchiser to maintain his part of the bargain both in letter and spirit. Franchises are a matter of mutual interest and obligations.

The Franchisee

From the point of view of the franchisee also there are certain advantages and disadvantages.

Advantages

- A business format or product which has already been market tested and, presumably, been found to work. As a consequence, major problems can be avoided in the start-up period.
- A recognised name of which the public is already aware and which has credibility with the suppliers.
- Publicity, both direct, in that the franchiser advertises his product or services, and indirect promotion through signage and other corporate image promotion, in all the franchiser's outlets.
- Although taking up a franchise is not cheaper than starting on you own, it is considered that the percentage of expensive errors made by individuals starting on their own is substantially reduced by the adoption of a tested format.
- Direct and close assistance during the start-up period.
- A period of training on production and management aspects.
- A set of standard management, accounting, sales and stock control procedures incorporated in an operating manual.
- Better terms for centralised bulk purchase negotiated through the franchiser, though he may be looking for mark-ups in this area as a source of revenue from the franchise.
- The benefit of the franchiser's research and development in improving the product.
- Feedback throughout the network on operating procedures and the facility to compare notes with other franchisees.
- Design of the premises to an established scheme saves on interior design fees and may eliminate these altogether where the franchiser has a set of specifications.

- The benefit of the franchiser's advice on equipment selection and initial inventory levels, though this may be partial where the franchiser is also the supplier.
- Help with site selection, negotiating with planning officers and developers.
- Possibly, though not universally, access to the franchiser's legal and financial advisers.
- The protected or privileged rights to the franchise within a given area.
- Improved prospects of obtaining loan facilities from the bank.
- The backing of a known trading name when negotiating for good sites with letting agents or building owners.

Disadvantages

- Business format franchising is, of necessity, something of a cloning exercise. There is virtually no scope for individual initiative in matter of product, service or design. The franchiser will demand uniformly high standards of maintenance, appearance and packaging in whatever the franchise entails. These are usually monitored by regular inspection.
- The royalty (sometimes called a management fee) paid to the franchiser. This is usually based on gross turnover or on profit. The problem here is that if the franchiser is not pulling his weight, or if the franchisee is not pulling his weight, or if the franchisee does not feel this to be the case, the royalty can be subject to bitter dispute. The franchisee may than feel justified in withholding all or part of the royalty on the grounds of non-performance by the franchiser, but this is always a difficult matter to prove in the courts. Furthermore, the franchiser's resources to conduct a long-drawn-out proceeding will usually be greater than the franchisee's.
- A further problem is that a high turnover does not necessarily imply a highly profitable operation. If the franchiser's income is wholly or partially based on turnover, he or she may try to push for this at the expense of profitability.
- The franchisee is not absolutely at liberty to sell the franchise even though he is in many respects operating the business independently. The sale has to be approved by the franchiser, who is also entitled to vet the vendor and charge the cost of any investigations made to the existing franchise. Furthermore, although the business would be valued as a going concern in trading terms, the goodwill remains the property of the franchiser. Again, the franchisee may feel that, at least to some extent, the goodwill has been built up by his or her own efforts. The resale of a franchise, in other words, is a process rich in those grey areas which can lead to expensive litigation.
- Territory agreements may be difficult to enforce in practice. For instance, a hypothetical firm called Calorie Countdown may have the exclusive rights in the suburb in which it is located, but there is nothing to prevent the citizens of that suburb from buying their slimmer's meals in some other neighbouring Calorie Countdown outlet.

- The franchisee, as well as paying a royalty to the franchiser, may be obliged to buy goods and services from him as well possibly at disadvantageous rates.
- Though the franchiser imposes all sorts of control and obligations on the franchisee to maintain the quality of his image, the scope for doing the reverse is more limited. If the franchiser's products or service gets bad publicity, this is bound to affect the franchisee adversely, and there is very little he can do about it. Equally, the franchiser may engage in promotional activities (and involve the franchisee in them as well), which, though perfectly harmless, may, from the point of view of a particular outlet, be a waste of time.
- The failure of a franchiser may leave the franchisee with a business which is not viable in isolation.

A Mutual Dependence

From this list of advantages and disadvantages to both parties, a more detailed picture emerges of the business format franchise as a relationship of mutual dependence, which allows each party to utilise its strengths to their mutual and, at best, equal advantage.

SNAPSHOT

- Small scale industries should seek registration with the Director of Industries of the concerned State government.
- Obtain a Provisional Registration Certificate. Once the unit goes into production, the PRC has to be converted into a Permanent Registration Certificate (PMTC).

Visit http://www.onlinewbc.gov/ to learn more about forms of business ownership and visit www.franchiseemporium.com to discover the incredible franchise opportunity.

The franchiser is able to expand without further investment and though the return is obviously lower than from expansion by ownership, he does receive an income from the franchisee as well as getting both an outlet for his product and more muscle in negotiating the purchase of materials and equipment. The franchisee, on the other hand, is able to concentrate his entrepreneurial skills at the sharp end of sales and customer service, while the administrative headaches of setting up the business are mitigated by the uniform nature of the format. By the same token, he is saved, through feedback to the franchiser of the accumulated experience of the franchises, from making the errors to which businesses are prone in their earlier and most vulnerable stages. This relationship is expressed as agreements—the purchase agreement and the franchise agreement. But before considering these, it is necessary to evaluate the franchise as a whole.

A study of the personal franchisee characteristics required for success carried out by Professor Russell M. Knight of the University of Western Ontario concluded that franchisees and franchisers have a large measure of agreement on what makes for success. They disagreed only in rating management ability and creativity—a point that may provide some clues as to what franchisers are really looking for in a franchise.

DISCUSSION FORUM

- What are the different forms of ownership of a business unit?
- Discuss the pros and cons of the various constitution of the unit.
- What are the major factors influencing franchising?

3. Registration

Obtain SSI Registration

Small-scale and ancillary units that is undertakings with investment in plant and machinery of less than Rs 1 crore) should seek registration with the Director of Industries of the concerned State government. Entrepreneurs desiring to start a small-scale industry have to initially obtain a Provisional Registration Certificate. Once the unit goes into production, the PRC has to be converted into a Permanent Registration Certificate (PMC).

Provisional Registration Certificate (PRC)

A Provisional Registration Certificate is the initial registration for starting a small-scale industry. It enables the entrepreneur to initiate necessary steps to bring the unit into existence. The entrepreneur should apply and obtain a PRC after selection of the project and deciding on the location of the unit. A PRC is necessary for applying for infrastructure facilities (such as land, shed etc.), finance, and so on. A format of PRC is given in Annexure 5.3.

Registration Formalities

The entrepreneur should make an application in the prescribed application form (in duplicate) along with the following.

1. Prescribed court fee stamp
2. Copy of the project profile
3. Partnership deed/Memorandum and Articles of Association, as the case may be
4. Affidavit, as per format on appropriate stamp paper

The PRC will be normally issued immediately, across the table on submission of the application .The initial validity of the PRC is for two years and it can be renewed subsequently, if needed. The benefits of getting Provisional Registration Certificate is given below.

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
- To obtain facilities for accommodation, land, other approvals etc.
- To obtain various necessary No Objection Certificates and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations and so on.

Permanent Registration Certificate (PMT)

An SSI unit can get a Permanent Registration Certificate (PMT) when it goes into commercial production. In the initial stages it would have obtained a Provisional Registration Certificate and it would be converted to PMT when the unit goes into production. A format of PMT is given in Annexure 5.4.

The PMT registration will help SSI units in several ways, listed below.

1. To apply for scarce raw materials and for imported raw materials.
2. To get working capital from banks/financial institutions.
3. To obtain Central excise duty concessions.
4. To apply for registration under the Government Stores Purchase Programme/ Ancillary Development Programme/Export Promotion Programme and to get purchase and price preferences.
5. To apply for incentives including sales tax exemption, wherever applicable.

A Permanent Registration Certificate enables the unit to get the following incentives/concessions.

- Income-tax exemption and sales tax exemption as per State government policy.
- Incentives and concessions in power tariff and so on.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after five years.

Registration Formalities

The application in the prescribed form (in duplicate) along with the following are to be submitted by the entrepreneur.

a. Prescribed court fees stamp
b. Affidavit, as per format on appropriate stamp paper

The Permanent Registration Certificate is normally issued immediately, across the table on submission of the application.

Registering an SSI Unit

The main purpose of registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services. States have generally adopted uniform registration procedures as per guidelines. However, there may be some modifications in different States. It must be noted that small industries is basically a State subject. States use the same registration scheme for implementing their own policies. It is possible that some States may have a 'SIDO registration scheme' and a 'State registration scheme'.

Benefits of Registering

The registration scheme has no statutory basis. Units normally get registered to avail some benefits, incentives or support given either by the Central or State government. The regime of incentives offered by the Centre generally contains the following.

- Credit prescription (priority sector lending), differential rates of interest, and so on.
- Excise exemption scheme
- Exemption under direct tax laws
- Statutory support such as reservation and Interest on Delayed Payments Act.

(It is to be noted that the banking laws, excise law and the direct tax laws have incorporated the word SSI in their exemption notifications, though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI).

States/UTs have their own package of facilities and incentives for small-scale units. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether by law or otherwise, generally target their incentives and support packages to units registered with them.

Objectives of the Registration Scheme

- To enumerate and maintain a roll of small industries at which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and district levels to promote SSI.

Features of the Registration Scheme

- DIC is the primary registering centre.
- Registration is voluntary and not compulsory.
- Two types of registration are done in all States. A provisional registration certificate is given first. After commencement of production, a permanent registration certificate is given.
- PRC is normally valid for five years and permanent registration is given in perpetuity.

Basis of Evaluation

- The unit has obtained all necessary clearances, whether statutory or administrative; for example, drug license under drug control order, NOC from Pollution Control Board, if required, and so on.
- Unit does not violate any location restrictions in force at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled, or a subsidiary of any other industrial undertaking as per notification.

Reports of State Directorate of Industries and District industries center.

De-registration

A small-scale unit can violate the regulations in the following ways which will make it liable for de-registration.

- It crosses the investment limits.
- It starts manufacturing a new item or items that require an industrial licence or other kind of statutory licence.
- It does not satisfy the condition of being owned, controlled, or being a subsidiary of any other industrial undertaking.

DISCUSSION FORUM

- What are the formalities for registering the SSI unit?
- Mention the benefits of registration.
- Under what circumstances does a SSI unit becomes de-registered?

4. Clearances from Specific Departments

Several clearances are required from different authorities depending on the type of industry and the location of the unit.

Box 5.5 The Specific Clearances Usually Required Depending on the Type of Unit

- Agricultural land conversion
- Urban land ceiling clearance
- Building plan approval
- Factories Act
- Trade licence
- Pollution Control Board clearances
- Sales tax registration
- Central excise registration
- Bureau of Indian Standards (BIS) certificate
- Fruit Products Order (FPO) licence
- Food Adulteration Act licence
- Power loom registration
- Electronics industries registration
- Drugs and cosmetics licence
- Approvals of hotels
- 100 per cent export-oriented unit

5. Arrange for Land/Shed

For any industrial project, a suitable industrial site or a ready industrial shed is required. The promoters of the unit could consider taking an industrial site and constructing a shed as per their requirement. Alternatively, they could consider taking a ready industrial shed on or on ownership basis.

Industrial Land

Once the location of the unit is decided, the land for the project could be conveniently taken from the State Industrial Areas Development Board. However, private land could also be purchased, but it has to be converted for industrial purpose and other necessary legal/formalities will have to be completed.

Industrial shed

For setting up an SSI unit, the promoters could consider using a ready industrial shed. This could be on rent or on ownership basis. Rental sheds have to be arranged from private owners. Purchase of industrial sheds has to be arranged from private owners. Purchase of industrial sheds is possible under outright purchase or hire purchase scheme.

Application formalities

Application in the prescribed form is to be submitted along with the following documents.

1. Copy of Provisional Registration Certificate (PRC)
2. Detailed project report
3. Certified copies in support of educational qualification, experience, and other categories as may be applicable
4. Applicable earnest money deposit

6. Arrange for Plant and Machinery

The plant and machinery required for the project could be purchased from recognised manufacturers/dealers. The plant and machinery could also be taken on a hire purchase scheme operated by the National Small Industries Corporation (NSIC). This is a Government of India corporation.

Direct Purchase

The entrepreneur has to select and buy the required plant and machinery from recognised and approved manufacturers or dealers. Banks and State Financial Corporations (SFC) maintain a list of approved machinery suppliers. The entrepreneur is advised to refer to such a list before deciding on the supplier.

The entrepreneur should compare the quality, performance, and service terms, price, and other details of the alternate plant and machinery that may be available in the market. Then they should decide on appropriate plant and machinery for their proposed project. Detailed quotations should be taken for preparing the project report and also for submission to State Financial Corporations along with the loan application. Some items of plant and machinery may have to be fabricated against orders. For such items, the entrepreneur should seek quotations from reputed and experienced fabricators and get their equipment fabricated as per the required specifications. Entrepreneurs have to take steps to order their plant and machinery from the selected suppliers/fabricators after the State Financial Corporations and banks sanction the loans.

NSIC Hire Purchase Scheme

In the hire purchase scheme of NSIC, the required plant and machinery will be the asset of NSIC and they will lease it to the promoters of the industrial unit. As per the NSIC Scheme agreement, once the required lease instalment is paid, the assets (plant and machinery) will become the property of the industrial unit. The hire-purchase scheme requires earnest money deposit to be brought in by the promoters of the unit.

Process Selection

Choices of process technology emerge once the product is finalised. For some complex products, process know-how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defence Research Labs, and some of this technology can now be bought. There are some intermediaries like APCTT, TBSE, which can help you to locate the relevant technologies. Besides there are some in-house R & D centres of companies which develop technologies and sell them to interested parties. Indigenously developed process know-how has intrinsic benefits such as appropriateness, relative inexpensiveness, and possibility to work with the local technology developer.

While checking out a process technology, the following things need to be considered with utmost care.

- Does the process require very high level of skilled workers or complex machines?
- Does the process require large quantities of water and/or power?
- Does any process or product patent need to be honored while utilising the selected process technology?
- Is there any special pollution or environmental regulation?
- The appropriateness to the Indian environment and conditions.

Raw Materials

Material procurement and planning are critical to the success of a start-up SSI unit. Inventory management can lead to manageable cash-flow situations; otherwise if too much is ordered too soon, considerable amount of working capital gets locked up. On the other hand, non-availability may result in production hold-ups, idle machine and manpower, hence increased cost. For essential imported raw material whose leadtime is large proper planning is all the more essential. Raw materials must be bought from reputed dealers and agencies only and before ordering prices must be compared and three to four quotations invited. It is also necessary to check whether the price is inclusive or exclusive of transportation cost. While receiving the delivery, quality and quantity of the materials must be checked.

Machinery and Equipments

Choosing and ordering the right machinery is of paramount importance. In many cases, technology or process specifications are provided. When not provided, an extensive techno-economic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur must also consult experts, dealers/suppliers as well as users, prior to making a selection of equipment and machinery. The advice of DIC, SISI, and NSIC can also be sought.

Many SSI entrepreneurs buy second-hand machines and equipment. This leads to one of the major deficiencies in the small industry–that of the prevalence of outdated production and management methods hindering the efficient operation of small-scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of invest funds. The main objective of the National Small Industries Corporation is to provide machinery and equipment to small industrial units, offering them a long repayment period with moderate rate of interest.

Box 5.6 NSIC Procedures for Hire Purchase of Machinery

- The hire purchase application has to be made on the prescribed form.
- The Director of Industries of the State under whose jurisdiction the applicant happens to be, forwards the application to the head office of the NSIC at Delhi with his recommendation and comments.
- All applications for indigenous or imported machines are considered by acceptance committees comprising the representatives of the Chief Controller of Imports, Development Commissioner, Small-Scale Industries, and other concerned departments.
- The decision of these committees is conveyed to the parties concerned with copies to the regional offices of the NSIC and the concerned Directorate of Industries.
- It is open to an applicant whose case has been rejected to get his application reviewed by a high-powered committee known proforma invoice.
- Once the entrepreneur completes all these formalities, instructions are sent to the suppliers to dispatch the consignment (duly insured for transit risk) to the entrepreneur and to send the R/R or C/R, as the case may be, to the regional office.
- The NSIC after ensuring that the entrepreneur has paid all dues, releases the R/R or C/R to him for taking delivery of the machines.
- In case of imported machines, the procedure is slightly different inasmuch as the shipping documents are sent to the clearing agents for clearing the consignment from the Customs and dispatching it to the entrepreneur.

Value of Machines

Rs 7.5 lakh, F.O.R. or landed cost, as the case may be.

Earnest Money

The rate of earnest money is equal to 5 per cent or 10 per cent of the value of machinery, depending on whether the equipment is imported or indigenous. In the case of furnaces and some other equipment, the rate of earnest money is different. Interest 9 per cent per annum with a rebate of 2 per cent on prompt payment. This interest is calculated on the value of machines outstanding after deducting the payment of earnest money.

Administrative Charge

This charge is equal to 2 per cent of the sales value of machines and its recovery by the NSIC, spread over the total instalment period.

Period of Repayment

The value of the machines, after deducting the earnest money received, called the balance value, is payable along with interest and administrative charge in seven years. The first instalment is payable after one year and six months of the delivery of the machines. The second and subsequent instalments are payable every six months thereafter.

Gestation Period

In case of of machines which become operative immediately on installation in the services sector industries and job order establishments, a gestation period of only six months shall be allowed both to the new and existing units.

A rebate of 2 per cent per annum is allowed on the interest rates in case an instalment is paid on or before the due date.

In case the payment of instalment is not made within one month of ts separate due date, interest at the rate of 2 per cent per annum over and above the normal rate is charged on the defaulted amount from the date of default to the date of actual payment. Remission in interest is allowed in case one or more than one instalment is paid in advance of the due date(s).

7. Arrange for Infrastructure

The main infrastructure facilities required for a SSI unit are land or shed for the project, power connection, water supply, and telephone facility.

Single Window Agencies (SWAs) are set up at district level for the benefit of small-scale industries. The SWA provides clearances for various infrastructure and other facilities for the tiny and small-scale industries. The assistance provided by the SWA is given below.

- Grant of land in industrial areas and allotment of sheds in the industrial estates for all tiny and small-scale units.
- Grant of power up to the limit prescribed by the State government.

- To review and recommend sanction of term loans and working capital loans by the State Financial Corporation and commercial banks within the district for the new and existing tiny and small-scale industries.
- Grant and disbursement of all incentives and concessions for tiny and small-scale industries.
- To generally review the position regarding problems faced by entrepreneurs and existing small-scale industries within the district and to do such other work as may help promotion of the industries.

Land and Construction of Building

After deciding the location and site, three important factors have to be kept in mind before purchasing/leasing the land.

- Availability of basic amenities like power, water
- Connectivity to nearest rail, road, or port
- Price of the land

Purchase/lease the land judiciously, because once you have committed, most probably you will be working there for the next 10 years or so. Once an industrial plot for the unit is secured, the next job is that of findng a suitable architect to design the outlay of area and factory. The design of the factory building has to be in consonance with the type of industry. Have an appropriate plant layout. If you are setting up business in home, plan the area which is to be used as your production centre or office wisely. You may like to take help of a professional to ensure that the area is utilised optimally. An architect's estimate of building construction is essential for loan applications. Further, an architect's certificate for money spent on the building is needed for disbursement of loan.

The State government offers incentives like land and building tax concessions, providing land at cheaper rates through the State agencies to new and existing entrepreneurs.

Getting the Utility Connections

Among the utilities, of prime importance are power and water. Other utilities that might be required are steam, compressed air, and fuel. Assess your requirement of such utilities, make arrangements to get these and ascertain the cost of consuming these.

Water Supply: Check out what is the source of your water supply. Is it river, canal, tube well or some other source. How far is it from your land? What is the quality of water (pH, hardness)? Does it meet your specific requirements? What is the rate/water charge applicable? Is it a common storage facility? Who is the operating authority (public works department, estate-corporation, municipality)?

Power Supply: Check out the nearest substation from where you will get power, power tariff rate, feeder type (industrial/rural) availability, quality of power, duration, and so on. In many cases getting a power connection causes a delay in the setting up of the plant. Therefore, it is imperative to commence work on these aspects and follow up diligently too. Power connections are generally either LT (low tension) or HT (high tension) type. If connected load is upto 75 HP, LT connection is provided. For connected loads of 130 HP or higher, only HT connection is provided.

A formal application needs to be made in a specific form to the State electricity board. An electrical inspector is deputed for evaluation to the factory site, after which the load is sanctioned. In areas of power shortage, it is advisable to augment the power supply with a captive generating set.

Water connection is also obtained likewise by applying in advance in formal forms. The water supply can be augmented by installation of a tube well.

The State government offers a number of concessions and incentives to industry like concessions in water tariff, power subsidy, subsidy on generating sets, transport subsidy, incentive for pollution control and quality equipment depending on the location, size of investment, and category of the industry.

8. Prepare Project Report

For any new project or venture, proper planning is necessary. A detailed project report provides such a plan for the project. The report is useful to the entrepreneur for planning and implementing the project. It is essential for obtaining finance and other clearances for the project. The project report gives a detailed insight of the project and indicates the techno-economic viability of the project.

The general points to be kept in mind while preparing a project report are given below.

- Expected use of the project report
- Elaborate details but retaining the confidential data
- Proper validation of the data and information based on reliable sources
- Effective presentation by use of charts, graphs, and pictorial forms
- Cost minimisation and timeliness
- Proper estimation of the requirement of number of copies

The project report is a document created through systematic recording of all the details about a project, with an analysis and validation of data/information. This is the most important document of any project. The project report must imbibe the following characteristics.

- Standard format
- Completeness of data
- Proper definitions of assumptions
- Imparting of data/information from reliable sources
- Emphasis on the main objectives of the project
- Scientific analysis of the data
- Preservation of confidential data/information
- Effective presentation and avoiding repetition
- Cost effectiveness
- Timeliness

Before preparing a project report, some homework on the following points is very necessary.

- Idea about the new task
- Statutory regulations and restrictions
- Technical details about production
- Process chart
- Requirement of manufacturing facilities like land, building, plant and machinery, auxiliary services, and so on
- Marketing of finished products
- Organisation chart
- Manpower requirement
- Availability of raw materials, consumables, power, and other services
- Quotations for creation of assets
- Technical collaborations/agreements
- Other financial details
- Promoter's bio-data
- Details about the existing unit in similar line of activity and similar product/service
- Knowledge about debt market

Box 5.7 The Project Report is Generally Prepared to Cover the Following Seven Broad Segments

- Executive summary
- Existing company details (if any)
- Operational details of the existing company (if existing)
- Project details
- The company vis-à-vis related industry
- Conclusion
- Annexure

Contents of a Project Report

1. Executive summary

a. Introduction
b. Financial performance
c. Balance sheet analysis
d. Proposed project
e. Project profitability and analysis
f. SWOT analysis

2. **Company details**
   a. History
   b. Manufacturing facilities
   c. Promoters
   d. Shareholding pattern
   e. Board of directors
   f. Key executives
   g. Major products
   h. Major customers
   i. Details of divisions
   j. Group units
3. **Operational details**
   a. Capacity and utilisation
   b. Profit and loss account
   c. Balance sheet
   d. Term loans and advances
   e. Working Capital loans
   f. Marketing and Distribution Network of the Company
   g. Marketing Strategy
   h. Export Sales
   i. Trends in selling Prices
   j. Details of Sub-contractors, out sourcing etc.
4. **Project details**
   a. Proposed project
   b. Orders and enquiries
   c. Location
   d. Manufacturing process
   e. Technical feasibility/superiority
   f. Technical know-how
   g. Inputs for production
   h. Manpower
   i. Power
   j. Water
   k. Marketing
   l. Auxiliary services
5. **Project cost**
   a. Land
   b. Building and civil works
   c. Plant and machinery

d. Preoperative expenses
e. Margin money for working capital

6. **Means of finance**
   a. Equity-share capital
   b. Internal accruals
   c. Deposits
   d. Debt
   e. Other sources
7. **Project status**
   a. Implementation schedule
   b. PERT and CPM analysis
   c. Current status
   d. Government approvals
8. **Profitability and risk analysis**
   a. Financials of the project
   b. Financials of the company
   c. Analysis of break even point, return on investment, payback period, internal rate of return, and sensitivity
   d. Major risk factors
   e. SWOT analysis
9. **Company vis-à-vis Related Industry**
   a. General analysis
   b. Competing industries
   c. Advantages of the company
10. **Employment Generation – Direct/Indirect**
11. **Conclusion**
12. **Annexure**
    a. Promoter's bio-data
    b. Organisation chart
    c. Details of group units, if any
    d. Statutory sanctions/approvals
    e. Arrangement for land and building
    f. Statement of cost of plant and machinery and other equipment
    g. Details of orders and enquiries
    h. Process chart
    i. Financials for project and its analysis
    j. Financials of the company and its analysis
    k. Any other details

9. Apply and Obtain Finance

There are various sources of funds. They are as follows.

- Share capital
- Internal accruals
- Deposits—own/public
- Debentures
- Short-term borrowings
- Long term loans
- Bridge loans
- Working capital loans like cash credit

Means of Finance

- Own equity
- Internal accruals
- Inter corporate deposits/investment
- State financial institutions
- Other financial institutions
- Banks
- Other borrowings like ECB, CP, FDI, FCNRB
- State subsidy and seed capital
- Lease finance

Small-scale units can obtain finance for their projects under two main categories.

a. Term loan

b. Working capital loan

a. Term Loan: For starting a SSI unit, term loan finance for fixed assets can be availed. Term loans can be availed from the State Financial Corporation or from commercial banks. The term loan is usually decided on the basis of the fixed assets required for the project. The fixed assets of a project are land, building and plant and machinery. The extent of loan depends on the project cost and the entrepreneur's background. The security margin money to be brought in by the entrepreneur depends on the location, scheme, and type of industry. The repayment of loan advanced is generally spread over a period of five to eight years. The repayment period and size of the instalments are based on estimated cash generation and profitability of the project.

b. Working Capital Loan: Such a loan is needed for the day-to-day operation of the unit. Working capital is required for raw material purchase, credit sales, for the products/goods in the process of manufacture, for the finished goods kept in stock, and for working expenses. For such purposes commercial banks provide working capital loans. Usually, the security for such loans are the materials (raw materials, work-in-progress, semi-finished goods, and finished goods), book debts and bills raised for sales. For working capital loans, banks require the industries/SSI units to bring in a certain amount of margin money. The margin money requirement varies for different types of securities offered or for different purposes. The banks, however, will assess the working capital needs of the individual industry (or the unit) while sanctioning a working capital loan.

Arranging Finance

To start and set up business, all SSI units need monetary support. Before seeking fund, estimate the cost including that of working capital required for a minimum of six to eight months and always keep a provision for buffer. You can take the help of a CA or the concerned officials in the Entrepreneurship Development Institutes to work out the total financial cost of your project. Decide the form in which you are going to raise the capital—equity finance, debt finance, loans, or a combination of these.

Financial assistance in India for SSI units is available from a variety of institutions. The important ones are as follows.

- Small Industries Development Bank of India (refinance and direct lending)
- State Financial Corporations, for example, Delhi Financial Corporation and Gujarat State Financial Corporation
- National Small Industry Corporation
- Small Industry Development Corporations of various States
- Commercial/cooperative banks
- District Industry Centre
- In addition, large term loans are also available from **all-India financial institutions** such as **IDBI, IFCI, and ICICI.** The Export Import Bank of India and Export Credit and Guarantee Corporation are Central agencies which provide credit for export/import and EXIM guarantees respectively.

This need for finance can be classified into the following types.

- Long-and medium-term loans
- Short term or working capital requirements
- Risk capital
- Seed capital/marginal money
- Bridge loans

State Financial Corporations, SIDBI, and State Industrial Development Corporations provide long-and medium-term loans. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. Term loans are secured against mortgage of assets such as land, building, machines, equipment, and other stocks. Short-term loans are required for working capital requirements which fund the purchase of raw material and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks.

There is, however, a Single Window Scheme for SSI units. Under the scheme, one agency, either the bank or the financial institution, funds both the term loan and working capital requirements. This scheme applies to all SSI projects with project cost upto Rs 50 lakhs. The working capital loan is generally secured against

- pledging of stocks, raw materials and finished goods;
- advances against work-in-progress (WIP); and
- advance against bills.

A formal application needs to be made for loans from financial institutions and commercial banks. The details of documentation that need to be provided with the loan application are given below.

- Balance sheet and profit and loss statement for the previous three consecutive years of firms held by promoters
- Income tax assessment certificates of partners/directors
- Proof of possession of land/building
- Architects estimate for construction cost
- Partnership deed/Memorandum and Articles of Associations of company
- Project report
- Budgetary quotations of plant and machinery

A sanction or rejection letter is issued by the bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of the terms and conditions laid down by the financial institutions/banks. The subsequent loan is disbursed according to the phased implementation of the project. In today's environment there are other choices, apart from commercial banks and government-owned financial institutions. These options include venture capital funds and non-government finance companies.

10. Implement the Project and Obtain Final Clearances

The entrepreneurs will have to take necessary steps to physically implement the project after obtaining the various licenses, clearances, infrastructure facilities and so on. The following are the major activities that the entrepreneurs have to undertake for implementing the project.

Construct Shed

If the entrepreneurs have taken a readymade shed from the State Small Industries Development Corporation or have made arrangements for rental sheds/premises, then they need not go through this step. However, if they have obtained land in an industrial estate or have made arrangements for vacant land privately, then they have to take steps to construct the shed for their industry.

The concerned authorities like the municipal corporations or municipalities or village panchayats and so on, as the case may be, should approve the plan for the industrial shed. The entrepreneurs should obtain suitable quotations from established contractors and decide on awarding the contracts to suitable contractors. Alternatively, they could undertake the construction of a shed by arranging for materials and labour directly. While constructing the shed entrepreneurs have to take necessary steps to arrange for water supply, drainage system, electrical wiring and so on, through licensed contractors.

Order for Machinery: Entrepreneurs should take steps to order the necessary machinery, equipment and so on, through dealers or make arrangements to get them on hire purchase through NSIC or any other suitable organisation. The terms and conditions for ordering machinery, equipment and so on, will vary from dealer to dealer. Hence, entrepreneurs will have to make the necessary arrangements as per the terms and conditions of the dealers. Delivery dates will vary depending the type of machinery, equipment, and so on. and the dealer through whom these are ordered.

Keeping these factors in mind, entrepreneurs should plan to order the necessary machinery, equipment and so on such that they are able to obtain them in time to implement the project.

Recruit Personnel: Depending upon the size of the industry and type of product, entrepreneurs will have to hire different types of personnel for the industry. Certain managerial and technical personnel may be required in the initial stages of the project. These personnel may be needed for preliminary work, for supervision and related work during planning and implementation of the project. Accordingly, entrepreneurs should take steps to hire key managerial and technical personnel well in advance. Most of the other personnel and office staff will be needed as soon as the unit is ready for commissioning. Accordingly, the entrepreneur should plan to hire such other persons at the appropriate time.

Arrange for Raw Materials: Entrepreneurs should plan for required raw materials as soon as they proceed to implement the project. They should try to get the necessary samples for the basic raw materials and components that they need to buy from outside for the project. During the implementation of the project, they should finalise the sources of raw materials and quality and quantity requirements for the project. Accordingly, they should plan and order the necessary raw materials and components so that they start receiving the supplies from the date of expected commissioning of the project.

Marketing: Entrepreneurs would have already put thought to the market for their project and the marketing plan that they desire to take up for the products. They should build up the necessary contacts for marketing during the implementation stage. They have to undertake the necessary groundwork of contacting prospective customers and preparing necessary plans for marketing. The planning should cover the product(s) design, pricing, promotional activities, and distribution systems.

Erection and Commissioning: Once the building is ready and the necessary plant and machinery have arrived, entrepreneurs have to take steps to erect the machinery. The various items of plant and machinery should be erected as per the prepared plan. Sometimes sophisticated machinery is supplied along with the service of erection. In such cases, the erection and commissioning will be undertaken and completed by the machinery suppliers. Alternatively, the entrepreneurs have to take the necessary steps to erect the plant and machinery.

After the plant and machinery is erected, the entrepreneurs should proceed to commission the plant. Initially, during the trial-run period, entrepreneurs will have to make necessary adjustments and changes in production and processes to obtain the desired quality products. Once the production/process of the unit is standardised, they can proceed with commercial production.

Obtain Final Clearances: Entrepreneurs are required to take several final clearances when the unit is ready for commissioning or as soon as it goes into production. Accordingly, entrepreneurs are advised to refer to the various preliminary clearances they have obtained from different departments/organisations and take necessary steps to obtain final clearances or approvals as required.

Box 5.8 Regulatory or Taxation Clearances

- Registration under Sales Tax Act—Commercial Tax officer of the area concerned.
- Registration under Central Excise Act—Collector of Central Excise or his nominee.
- Payment of Income Tax—ITO of the area concerned.
- Registration of Partnership deed—Inspector General of area concerned.
- Calibration of weights and measures—Weights and Measures Inspector of State.
- Power connection—designated officer of State Electricity Board.
- Employee strength exceeding 10 with power connection, or 20 without power - Chief Inspector of Factories.

ENVIRONMENT POLLUTION RELATED CLEARANCES

1. Pollution control: A No Objection Certificate (NOC) should be obtained from the State Pollution Control Board before commencement of construction activity. In case the industry falls in the highly polluting category, a full-fledged or rapid Environmental Impact Assessment (EIA) has to be carried out and submitted to the State Pollution Control Board for approval, after which the construction can commence.

Box 5.9 Product Specific Clearances

- Establishing a printing press—District Magistrate.
- License for cold storage construction—designated official in State.
- Pesticides - Central/State Agricultural Department—Ministry of Agriculture.
- Drugs and pharmaceuticals—drug licence from State Drug Controller.
- Safety matches/fireworks—licence under Explosives Act from Directorate of Explosives, Nagpur.
- Household electrical appliances--licence from the Bureau of Indian Standards.
- Wood working industry within 8 km from forest—District Forest Officer.
- Milk processing and milk products manufacturing units—approval under Milk and milk Products Order from State Agricultural/Food Processing Industries Department above a designated capacity.

Reports of the Development Commissioner Small Scale Industries, New Delhi.

2. Industries requiring water and affecting effluent disposal: A No Objection Certificate should be obtained from the State Pollution Control Board before commencement of construction activity.

3. For units functioning outside the industrial area: Permission has to be sought from the municipal corporation/municipality/panchyat. In case private agricultural land is purchased for the project, the land would have to be rezoned as industrial zone. Permission to convert such agricultural land to industrial area would have to be obtained from the local office of the Directorate of Town and Country Planning before the actual start of the construction.

4. Registration and licensing of a boiler: Safety clearances of the Chief Electrical Inspector and the Chief Inspector of Boilers are required before commencing operations with electrical and pressure vessels (boilers) respectively.

5. For registration as a 100 per cent export-oriented unit (EOU) which can enjoy many additional concessions, the clearance of the Development Commissioner of the Export Processing Zone (EPZ) is required. If the company wishes to offer equity shares to the public, the clearance of the Securities Exchange Board of India (SEBI) has to be taken.

SUMMARY

Today's knowledge-based economy is fertile ground for entrepreneurs in India. The success stories of businesses built on a great idea executed by a talented team have great appeal in India, where access to capital is scarce and regulation has often created barriers to success. Estimates indicate that several thousand "new economy" businesses were launched in the year 2004 in India.

The overriding reason for anyone to think of establishing a SSI unit can be summarised in one word—opportunity. An opportunity to be your own boss, to provide a product or service, to implement your ideas which can generate sufficient surplus are reasons to think of starting an SSI unit. Starting a small business takes a lot of courage. To be successful—to stay in business—you need a combination of hard work, skill, and perseverance.

Persons deciding to set up a small-scale industry have to initially decide on suitable projects. This involves selection of a product or service, and a location for the unit. Based on these, a project feasibility study has to be made and then a brief profile prepared for the proposed project. Then an entrepreneur has to prepare a business plan. Depending on the type of project, location, and investment involved, the entrepreneur has to proceed to take further steps in establishing the unit.

KEY WORDS

- Business opportunity
- Green business
- Biotechnology
- Events management
- IT Enabled services
- Food processing

- Mineral water
- Courier services
- Insurance sector
- Telecommunication
- Herbal sector
- Tourism sector
- Vermiculture
- Plastic
- DIC
- Project feasibility study
- Business plan
- Project profile
- Project report
- Market analysis
- Technical analysis
- Financial analysis
- Economic analysis
- Ecological analysis
- Project cost
- Means of finance
- Risk analysis
- Marketing plan
- Financial plan
- Break even point
- balance sheet
- Cash flow statement
- Sole proprietorship
- Partnership
- Corporations/Limited company
- Franchising
- Provisional Registration Certificate
- Permanent Registration Certificate
- NSIC
- Hire purchase
- Lease Purchase
- Executive summary
- SWOT analysis
- Term loan
- Working capital
- Statutory and Regulatory
- Product specific clearances

EXERCISES

Assignment 1

Prepare a project profile of your choice, not exceeding A4 size pages with adequate margins and normal space between the paragraphs.

Activity 1

Divide the class into groups of five students each. Prepare a business plan of a venture of your choice. All the groups have to prepare a 15-minute Power Point presentation on the contents of your business plan. Take the help of your professor and make a panel of consisting of one professor, one banker/venture capitalist and one entrepreneur from your area. All the groups have to make the presentation before this panel. Five minutes should be given for interaction. After all the presentations are over, the panel has to decide the winner group and the first and second runner up. Request your professor to lend his supervision to this exercise.

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Discover a franchise opportunity

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Entrepreneurial dreams can become a reality by franchising.

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Identifying a new business opportunity.

ANNEXURE 5.1 BUSINESS PLAN

Corporate Fitness

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7.7 Business Ratios

1. EXECUTIVE SUMMARY

Corporate Fitness will serve Electronic City businesses, helping them to become more productive, while lowering their overall costs. Our business is based on two simple facts:

i. Healthy employees are more productive than chronically ill employees.
ii. It costs less to prevent injuries or illnesses than to treat them after they occur.

At Corporate Fitness, we tie worker productivity directly to the health care issue. We believe that traditional approaches to the current health care crisis are misdirected. These traditional efforts are what we call reactive—that is, they wait until after the worker falls ill or is injured, and then pay for the necessary treatment. Our approach, which emphasises prevention and good health promotion, is much more proactive.

By helping employees change their behaviour patterns and choose more healthy lifestyles, Corporate Fitness will lower companies' health care expenditures, while raising worker productivity. Health care expenditures will decrease due to reduced medical insurance premiums, reduced absenteeism, reduced turnover rates, reduced worker's compensation claims, reduced tardiness, shorter hospital stays, and so on.

The state of India's health care crisis, coupled with current demographic changes, threatens not only to exacerbate the crisis, but erode worker productivity as well. These environmental factors coupled with the local competitive situation signal a favourable opportunity in this market. We feel the time is right for Corporate Fitness.

1.1 Objectives

i. Provide wellness strategies/programmes to businesses in the Electronic City area.
ii. Create working relationships with 20 companies by the end of 2005.
iii. Expand Corporate Fitness into White field and Cunningham by the end of 2006.

1.2 Mission

Corporate Fitness is a health service that helps businesses and individual workers attain one of the greatest gifts of all—good health. Personal gains, such as improved self-esteem and self-motivation, combined with measurable benefits, will create tremendous advantages for both the employer and the employee.

1.3 Key to Success

Corporate Fitness' keys to success are:

- Marketing services to companies and individuals;
- Recruitment of experienced managerial talent;
- Dedication and hard work of the founders;
- Raising productivity; and
- Lowering overall costs.

2. COMPANY SUMMARY

The company began in Electronic City, founded by three owners, all of who hold director positions.

Corporate Fitness is based on the belief that healthy employees are more productive and efficient. For this reason, it provides wellness strategies/programmes to businesses in the Electronic City area. This combines promotion of health and exercise-related activities designed to facilitate positive lifestyle changes in members of a company's workforce.

2.1 Company Ownership

Corporate Fitness is a privately held corporation. The three founders comprise all the ownership.

- David Johnson—40 per cent
- Satish Kelkar—30 per cent
- Ramesh Gulhati—30 per cent

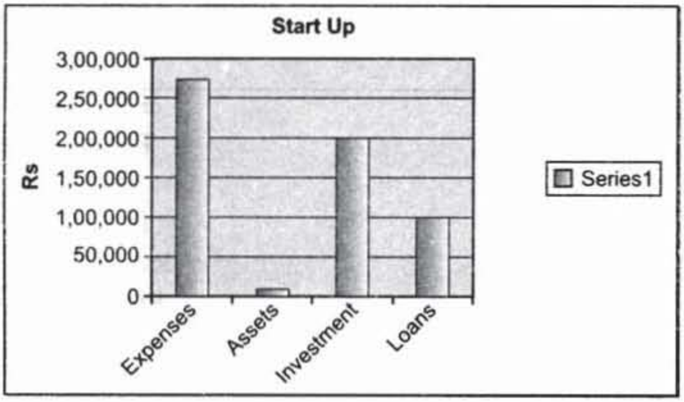
2.2 Start up Summary

Start up will require approximately a capital of Rs 3,00,000, of which Rs 2,00,000 will be provided by the founders and their families. The remaining Rs 1,00,000 will come as a loan. Approximately Rs 1,40,000 will be allocated to leasehold improvements and Rs 75,000 to equipment.

Start up	
Requirements	
Start up Expenses	
Legal	Rs 1,250
Stationery etc.	Rs 1,000
Brochures	Rs 800
Insurance	Rs 5,000
Rent	Rs 58, 000
Expensed equipment	Rs 75,000
Utilities	Rs 6,500
Leasehold improvements	Rs 1,40,000
Other	Rs 2,450
Total Start-up Expenses	Rs 2,90,000
Start up Assets Needed	
Cash Balance on Starting Date	Rs 10,000
Other Current Assets	Nil
Total Current Assets	Rs 10,000
Long-term Assets	Nil
Total Assets	Rs10,000
Total Requirements	Rs 3,00,000

Funding	

Investment	
Investor 1	Rs 80,000
Investor 2	Rs 60,000
Investor 3	Rs 60,000
Other	Nil
Total Investment	Rs 2,00,000
Current Liabilities	
Accounts Payable	Nil
Current Borrowing	Nil
Other Current Liabilities	Nil
Current Liabilities	Nil
Long-term Liabilities	Rs 1,00,000
Total Liabilities	Rs 1,00,000
Loss at Start up	(Rs 2,90,000)
Total Capital	(Rs 90,000)
Total Capital and Liabilities	Rs 10,000



2.3 Company Location and Facilities

The Corporate Fitness headquarters are located within First Club, Electronic City. Upon expansion, offices will be moved to a different location, not within any individual club.

3. SERVICES

Business ratios for Corporate Fitness indicate strong financial growth and an impressive chance for investment opportunities, making expansion and further development both very possible.

3.1 Service Description

Corporate Fitness provides wellness strategies/programmes to businesses in the Electronic City area. A wellness strategy is a long-term effort, combining both health-promotion and exercise-related activities designed to facilitate positive lifestyle changes in members of a company's workforce. Corporate Fitness will work with a company's senior management to help it develop a mission statement for its wellness programme. The client company's employees will undergo a health-risk analysis, following which each employee will be given the opportunity to meet with a health professional to design a personalised health programme. Finally, Corporate Fitness will furnish employee progress reports to senior management with which to carry out the incentive programme and generally monitor changes in the behaviour of its workforce.

3.2 Competitive Comparison

Corporate Fitness is not primarily a health club, as are the majority of its competitors. This organisation is in the business of health care cost management. Its major function is to work with client companies to implement wellness strategies. Many employees will become the benefactors of such strategies without ever visiting the fitness facility as exercise is only one facet of overall wellness. Corporate Fitness has a vested interest in each individual member of every wellness programme, unlike many competitors. An integral part of this service is follow up and monitoring of individuals.

3.3 Fulfillment

All fitness machines are purchased from exercise equipment distributors, while all medical equipment is bought from a reputable supply company.

4. MARKET ANALYSIS SUMMARY

In 2001, the Indian medical bill was Rs 738 million, of which businesses paid 30 per cent. Recent studies indicate returns on investments in wellness programmes for various companies ranging from Rs 1.91:1 to Rs 5.78: 1. Hindustan Motors two-wheeler division, for example, saves Rs 1 million per year through its wellness programmes. The Oriental Insurance Company reported savings of Rs 7.8 million in 1991, attributable to its wellness programmes, and a return of Rs 3.41 for every rupee invested in wellness. Important demographic changes are taking place in India that point to the importance of worker productivity in coming decades.

- 16 million new jobs will be created by the year 2010, but there will only be 14 million workers to fill them.
- By 2005, women will comprise one-third of the workforce, a ratio that will increase to one-half by the year 2010.
- An estimated 80 per cent of jobs to be filled in the immediate future will require more than a high-school education. Only 74 per cent of Indians, however, finish high school, and only 67 per cent graduate with adequate skills.
- The number of skilled workers available to fill new jobs is decreasing, meaning that employers are facing more severe competition for labour. Thus, the health and productivity of each employee becomes crucial to a company's success.

4.1 Market Segmentation

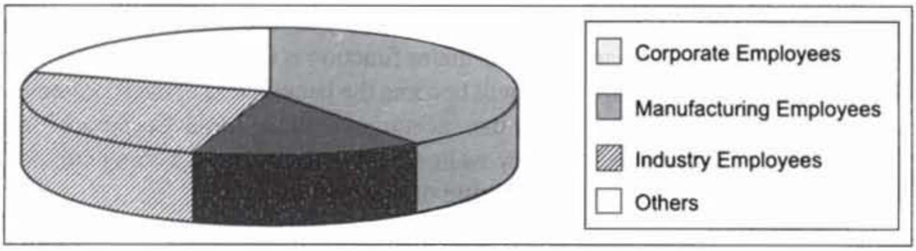
The market for corporate fitness is not particularly segmented as potential customers, including all Electronic City businesses that offer their employees some type of medical benefits, are experiencing escalating health care costs, and wish to manage those costs more effectively.

Corporate Fitness, however, segments its services for individual organisations. It works with senior management to develop mission statements and provide incentive plans, and with employees to design personalised health and fitness programmes.

4.2 Service Business Analysis

Several small fitness facilities are currently in operation in the Electronic City area, none of which cater to corporations. These organisations are primarily exercise facilities with little emphasis on personalising individual plans to improve working performance.

Market Analysis (Pie)



Market Analysis							
Potential Customers	Growth%	2005	2006	2007	2008	2009	CAGR%
Corporate Employees	35	750	1,013	1,368	1,847	2,493	35.03
Manufacturing Employees	15	250	288	331	381	438	15.05
Industry Employees	25	500	625	781	976	1,220	24.98
Others	15	300	345	397	457	526	15.07
Total	26.96	1,800	2,271	2,877	3,661	4,677	26.96

4.2.1 Business participants

Participants in the fitness industry include national, regional, and local organisations. At the national level, companies such as Diamond Gym and the YMCA offer exercise facilities and training programmes. At the regional level, firms such as Body Care and Body Shop offer comparable services, while locally, privately-owned businesses provide similar, but less-extensive services to exercise-seekers.

4.2.2 Distribution patterns

Few fitness centres are located in the Electronic City area, while the majority are found in suburban neighbourhoods and shopping complexes. Those in the Electronic City area are located close to professional centres containing restaurants, parks, and other recreational activities. In suburban areas, these establishments are often found close to grocery stores, restaurants, and retail stores.

4.2.3 Main competitors

The three main competitors for Corporate Fitness are:

- YMCA—its market is lower-income families and/or students who want accessibility and affordability of fitness facilities.
- Diamond Gym—its services are targeted at those motivated and dedicated individuals who work out five to seven times a week.
- Body Care—it is aimed at casual fitness-seekers who do not work out with high intensity but still desire the status and recognition.

5. STRATEGY AND IMPLEMENTATION SUMMARY

Corporate Fitness' strategy is based on raising worker productivity and lowering overall costs for businesses. The most logical way to approach these factors is through a healthy workforce. Companies that implement wellness programmes with Corporate Fitness will be encouraged to look at the "big picture" regarding the effects of its wellness programmes. Thus, one marketing goal is to persuade more traditionally managed companies that wellness can work for them. By tailoring services and developing customised programmes for companies and individual employees, Corporate Fitness will develop a reputation for quality and customer service.

5.1 Marketing Strategy

Corporate Fitness will begin by targeting small- to medium-sized businesses in the Electronic City area. The first task is to convince senior executives of the benefits and needs of wellness Programmes. This will be accomplished by aggressively pursuing interaction and relationships with business professionals who would profit from using this service. Once a strong image is established, Corporate Fitness will use similar strategies to market its services to larger corporations in Electronic City and other areas of expansion.

5.1.1 Pricing strategy

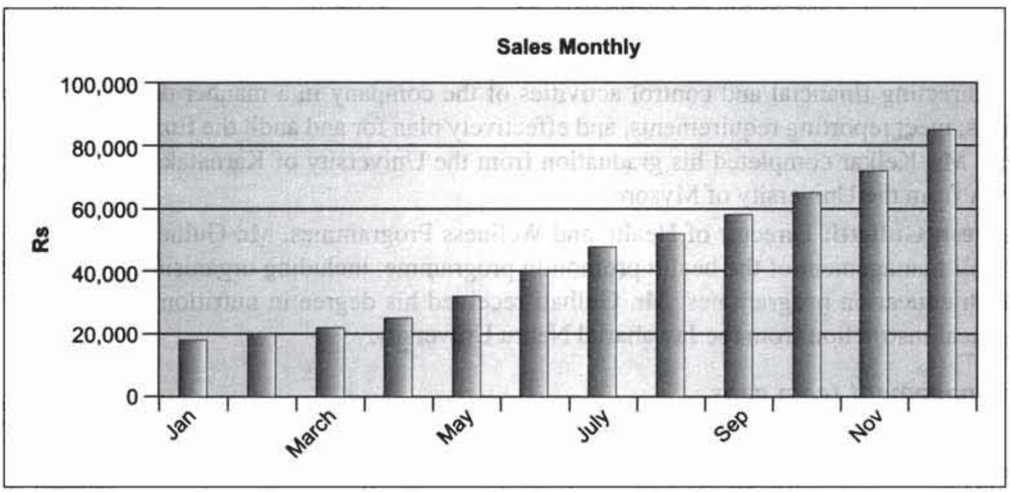
Prices for using Corporate Fitness' services are comparable to those of higher-end fitness centres. An employee choosing to utilise a Corporate Fitness centre will pay Rs 100 monthly fee. For each employee enrolled in the general wellness programme, regardless of whether or not they use the fitness facility, the employer will pay Rs 150 annually. The prices reflect the quality of the equipment and service.

5.1.2 Promotion strategy

Following initial promotional activity through advertisements in newspapers, magazines, and on local television and radio, Corporate Fitness will significantly reduce its promotional efforts in the hope that word-of-mouth publicity will attract potential clients. Promotional activity will still be utilised through these media outlets, but only minimally.

5.1.3 Sales strategy

Anticipated sales are shown in the accompanying table and chart.



Sales Forecast			
Sales	2005 (in Rs)	2006 (in Rs)	2007 (in Rs)
Sales	5,39,075	6,50,750	8,25,600
Total Sales	5,39,075	6,50,750	8,25,600
Direct Cost of Sales	2005 (in Rs)	2006 (in Rs)	2007 (in Rs)
Sales	33,000	44,000	55,000
Subtotal Direct Cost of Sales	33,000	44,000	55,000

6. MANAGEMENT SUMMARY

Corporate Fitness is currently a small organisation headed by three individuals. The CEO/Director of Sales and Marketing oversees the activities of the Director of Health and Wellness Programmes and the Director of Finance and Administration. The Director of Health and Wellness Programmes is the contact for and supervisor of the fitness specialists and health educators and promoters. The Director of Finance and Administration provides guidance for fitness facility attendants. As the firm grows and expands, more director positions will be added as needed.

6.1 Organisational Structure

There are currently two divisions of Corporate Fitness: "Health and Wellness" and "Finance and Administration." With the growth of the company, more divisions will be created as the demand for services increases.

6.2 Management Team

- **David Johnson:** CEO and Director of Sales and Marketing. Mr. Johnson is responsible for providing leadership, direction, and control for all aspects of the company's activities in order to realise optimum profits compatible with the best long- and short-term interests of the shareholders, employees, consumers, and public. Mr. Johnson completed his graduation at Bangalore University and then earned his MBA from the University of Mysore.
- **Satish Kelkar:** Director of Finance and Administration. Mr. Kelkar is responsible for guiding and directing financial and control activities of the company in a manner designed to protect assets, meet reporting requirements, and effectively plan for and audit the financial needs of the firm. Mr. Kelkar completed his graduation from the University of Karnataka and received his MBA from the University of Mysore.
- **Ramesh Gulhati:** Director of Health and Wellness Programmes. Mr. Gulhati will assume the overall management of the health promotion programme, including organising and conducting health education programmes. Mr. Gulhati received his degree in nutrition and dietetics and physical instruction from the Jawaharlal Nehru University.

6.2.1 Management team gaps

The gaps of Corporate Fitness' management team include:

- Lack of experience in the fitness industry;
- Minimal expertise in areas of finance and accounting; and
- Strong desire for financial prosperity immediately with little patience for minimal profitability.

6.3 Personnel Plan

Corporate Fitness' personnel staff requirements are shown in the table below.

Personnel Plan			
	2005 (in Rs)	*2006 (in Rs)*	*2007 (in Rs)*
Fitness Centre Manager	15,000	15,000	15,000
Programme Director	54,000	54,000	54,000
Personnel Manager	36,000	36,000	36,000
Health/Fitness Specialists	33,000	33,000	33,000
Attendants	12,000	12,000	12,000
Total Payroll	1,50,000	1,50,000	1,50,000

7. FINANCIAL PLAN

- Consulting revenue will make up approximately 85 to 90 per cent of the total revenue, with the rest coming from service revenue.
- Salaries and rent are the two major expenses, while depreciation is another significant cost that will increase as the company develops. Although the purchasing of fitness, medical, and office equipment is expensive, constant replacement will be needed to minimise depreciation costs and maintain a competitive edge.
- In order to maintain steady gross margins, salaries and advertising expenses are not likely to increase within the first two years of operation, unless cash flows increase significantly.

7.1 Important Assumptions

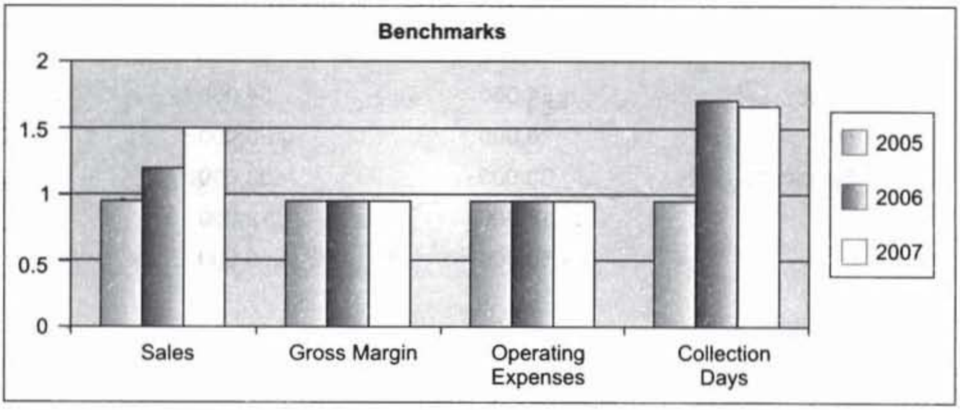
Three assumptions for Corporate Fitness are

1. A constantly growing economy without any major recession or boom;
2. No unpredictable changes in fitness, medical, or office equipment; and
3. No major national or global events that threaten the stability and health of the country and its citizens.

General Assumptions			
	2005 (%)	*2006 (%)*	*2007 (%)*
Plan Month	1	2	3
Current Interest Rate	3.00	3.00	3.00
Long-term Interest Rate	10.00	10.00	10.00
Tax Rate	25.42	25.00	25.42
Sales on Credit	60.00	60.00	60.00

7.2 Key Financial Indicators

The most important financial indicators are net increase in cash and net income. Net increase from cash will exemplify the relationship between net income and net cash from operating activities. The greater the increase, the greater the financial strength of Corporate Fitness at that time.



7.3 Break-even Analysis

Corporate Fitness' break-even point is at 1,667 units each month, with monthly sales at Rs 16,667. Sales forecasts indicate that units sold and monthly sales are expected to be much greater than the break-even point mentioned in the table.

Break-even Analysis	
Monthly Units Break-even	Rs 1,667
Monthly Revenue Break-even	Rs 16,667
Assumptions	
Average Per-Unit Revenue	Rs 10.00
Average Per-Unit Variable Cost	Rs 4.00
Estimated Monthly Fixed Cost	Rs 10,000

7.4 Projected Profit and Loss

Sales are predicted to increase each month with annual sales totalling close to Rs 5,40,000. Gross margin, likewise, is expected to increase simultaneously, ending at close to 94 per cent for 2005. Compared to total sales, net profit will increase each month and is predicted to increase in 2005 through 2007.

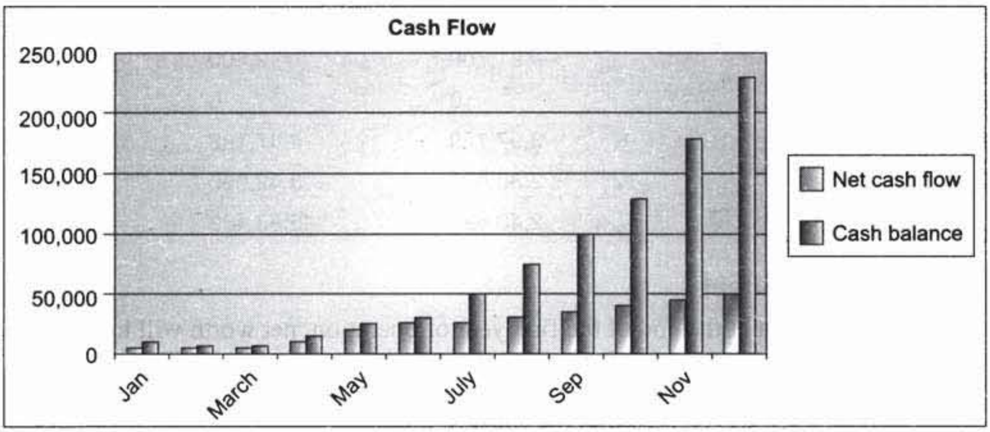
Proforma Profit and Loss			
	2005 (in Rs)	*2006 (in Rs)*	*2007 (in Rs)*
Sales	5,39,075	6,50,750	8,25,600
Direct Cost of Sales	33,000	44,000	55,000
Other	0	0	0
Total Cost of Sales	33,000	44,000	55,000
Gross Margin	5,06,075	6,06,750	7,70,600
Gross Margin %	93.88	93.24	93.34

Contd.

Expenses			
Payroll	1,50,000	1,50,000	1,50,000
Sales and Marketing and Other Expenses	25,200	25,200	25,200
Depreciation	7,200	7,200	7,200
Insurance	5,400	5,400	5,400
Rent	60,000	60,000	60,000
Other	0	0	0
Utilities	25,200	25,200	25,200
Leased Equipment	27,600	27,600	27,600
Payroll Taxes	22,500	22,500	22,500
Other	0	0	0
Total Operating Expenses	3,23,100	3,23,100	3,23,100
Profit before Interest and Taxes	1,82,975	2,83,650	4,47,500
Interest Expense	10,926	12,531	14,174
Taxes Incurred	42,424	67,780	1,10,137
Net Profit	1,29,625	2,03,339	3,23,189
Net Profit/Sales%	24.05	31.25	39.15

7.5 Projected Cash Flow

With cash flow increasing significantly and expenses remaining relatively static with only minimal increases, cash flow will experience a similar increase for each period of financial evaluation. Cash flow is expected to more than double from just over Rs 2,30,000 in 2005 to over Rs 3,42,000 for 2006, with corresponding cash balances of Rs 2,40,000 and Rs 5,83,000.



Proforma Cash Flow			
	2005 (in Rs)	*2006 (in Rs)*	*2007 (in Rs)*
Cash Received			
Cash from Operations			
Cash Sales	2,15,630	2,60,300	3,30,240

Contd.

Cash from Receivables	2,74,145	3,80,237	4,79,369
Subtotal Cash from Operations	4,89,775	6,40,537	8,09,609
Additional Cash Received			
Sales Tax, VAT, HST/GST Received	0	0	0
New Current Borrowing	27,000	24,750	24,750
New Other Liabilities (interest-free)	72,575	85,755	Rs93,450
New Long-term Liabilities	9,000	9,000	9,000
Sales of Other Current Assets	0	0	0
Sales of Long-term Assets	0	0	0
New Investment Received	30,000	30,000	30,000
Subtotal Cash Received	6,28,350	7,90,042	9,66,809
Expenditures	2005 (in Rs)	2006 (in Rs)	2007 (in Rs)
Expenditure from Operations			
Cash Spending	31,505	34,664	41,313
Payment of Accounts Payable	3,44,524	4,02,918	4,48,363
Subtotal Spent on Operations	3,76,029	4,37,582	4,89,676
Additional Cash Spent			
Sales Tax, VAT, HST/GST Paid Out	0	0	0
Principal Repayment of Current Borrowing	0	0	0
Other Liabilities Principal Repayment	0	0	0
Long-term Liabilities Principal Repayment	0	0	0
Purchase Other Current Assets	0	0	0
Purchase Long-term Assets	21,700	9,600	9,600
Dividends	0	0	0
Subtotal Cash Spent	3,97,729	4,47,182	4,99,276
Net Cash Flow	2,30,621	3,42,860	4,67,533
Cash Balance	2,40,621	5,83,482	1,051,015

7.6 Projected Balance Sheet

The balance sheet indicates that at the end of the first year of operation, net worth will be positive and constantly increasing to the point of Rs 302,000 by the end of 2005.

Proforma Balance Sheet			
Assets			
Current Assets	2005 (in Rs)	2006 (in Rs)	2007 (in Rs)
Cash	2,40,621	5,83,482	1,051,015
Accounts Receivable	49.300	59,513	75,504
Other Current Assets	0	0	0

Contd.

Total Current Assets	2,89,921	6,42,995	1,126,519
Long-term Assets	21,700	31,300	40,900
Accumulated Depreciation	7,200	14,400	21,600
Total Long-term Assets	14,500	16,900	19,300
Total Assets	3,04,421	6,59,895	1,145,819
Liabilities and Capital			
Current Liabilities	2005 (in Rs)	2006 (in Rs)	2007 (in Rs)
Accounts Payable	26,221	28,851	34,385
Current Borrowing	27,000	51,750	76,500
Other Current Liabilities	72,575	1,58,330	2,51,780
Subtotal Current Liabilities	1,25,796	2,38,931	3,62,665
Long-term Liabilities	1,09,000	1,18,000	1,27,000
Total Liabilities	2,34,796	3,56,931	4,89,665
Paid-in Capital	2,30,000	2,60,000	2,90,000
Retained Earnings	2,90,000	1,50,375	42,964
Earnings	1,29,625	2,03,339	3,23,189
Total Capital	69,625	3,02,964	6,56,153
Total Liabilities and Capital	3,04,421	6,59,895	1,145,819
Net Worth	69,625	3,02,964	6,56,153

7.7 Business Ratios

The following table outlines some of Corporate Fitness' more important business ratios. The final column, Industry Profile, details specific ratios based on the physical fitness facilities industry as it is classified by the Standard Industry Classification (SIC) code, 7991. These ratios indicate a strong financial growth and an impressive chance for investment opportunities, making both expansion and further development very possible.

Ratio Analysis				
	2005	*2006*	*2007*	*Industry Profile*
Sales Growth	0.00%	20.72%	26.87%	4.96%
Per cent of Total Assets				
Accounts Receivable	16.19%	9.02%	6.59%	5.74%
Inventory	0.00%	0.00%	0.00%	2.91%
Other Current Assets	0.00%	0.00%	0.00%	31.21%
Total Current Assets	95.24%	97.44%	98.32%	39.86%
Long-term Assets	4.76%	2.56%	1.68%	60.14%
Total Assets	100.00%	100.00%	100.00%	100.00%
Current Liabilities	41.32%	36.21%	31.65%	21.71%
Long-term Liabilities	35.81%	17.88%	11.08%	29.51%

Contd.

Total Liabilities	77.13%	54.09%	42.73%	51.22%
Net Worth	22.87%	45.91%	57.27%	48.78%
Per cent of Sales				
Sales	100.00%	100.00%	100.00%	100.00%
Gross Margin	93.88%	93.24%	93.34%	100.00%
Selling, General and Administrative Expenses	69.94%	61.99%	53.97%	72.76%
Advertising Expenses	2.78%	2.31%	1.82%	2.44%
Profit before Interest and Taxes	33.94%	43.59%	54.20%	3.01%
Main Ratios				
Current	2.30	2.69	3.11	1.05
Quick	2.30	2.69	3.11	0.73
Total Debt to Total Assets	77.13%	54.09%	42.73%	2.72%
Pre-tax Return on Net Worth	247.11%	89.49%	66.04%	61.25%
Pre-tax Return on Assets	56.52%	41.09%	37.82%	7.03%
Additional Ratios	*2005*	*2006*	*2007*	
Net Profit Margin	24.05%	31.25%	39.15%	n.a
Return on Equity	186.18%	67.12%	49.26%	n.a
Activity Ratios				
Accounts Receivable Turnover	6.56	6.56	6.56	n.a
Collection Days	29	51	50	n.a
Inventory Turnover	0.00	0.00	0.00	n.a
Accounts Payable Turnover	14.14	14.06	13.20	n.a
Payment Days	16	25	25	n.a
Total Asset Turnover	1.77	0.99	0.72	n.a
Debt Ratios				
Debt to Net Worth	3.37	1.18	0.75	n.a
Current Liab. to Liab.	0.54	0.67	0.74	n.a
Liquidity Ratios				
Net Working Capital	Rs 1,64,125	Rs 4,04,064	Rs 7,63,853	n.a
Interest Coverage	16.75	22.64	31.57	n.a
Additional Ratios				
Assets to Sales	0.56	1.01	1.39	n.a
Current Debt/Total Assets	41%	36%	32%	n.a
Acid Test	1.91	2.44	2.90	n.a
Sales/Net Worth	7.74	2.15	1.26	n.a
Dividend Payout	0.00	0.00	0.00	n.a

Enclosures

- Appendices
- Menus
- Resumes and personal financial statements
- Lease
- Marketing materials
- Press clippings
- Budgets and schedules
- Floor plan, artist rendering
- Contracts
- Market research study

ANNEXURE 5.2 PROJECT PROFILE

Glycerine Business without Tears

Introduction

Glycerine is a colourless, syrup with no odour. Its melting point is 180º C. It is hydroscopic in nature, with a sweet taste. It is completely soluble in water and alcohol. It may be classified as industrial grade. The Bureau of India Standards specification code for glycerine is: IS 1796–1986.

Market

Glycerine has a wide range of operations/applications in various industries.

Pharmaceuticals

The major share of glycerine production is in the pharmaceuticals industry. It is used for coating tablets, pills, in ointments, and tinctures and so on. The present rate of consumption is 17 per cent and the demand may increase up to 23 per cent in the coming years.

Paints Industry

The paint industry uses glycerine as a raw material of alkyd resin. The present rate of consumption is 18 per cent and it rise to 20 per cent in next year.

Tobaco Manufacturing

Glycerin is used as an agent to prevent dehydration. It is being used in cigarettes.

Cosmetics

Glycerine is used in the cosmetics sector also, for example, in lipsticks and so on. The present rate of consumption is 11 per cent of the total production.

Manufacturing Process Of Glycerine

The process consists of the following stages.

(1) Purification of lye soap
(2) Concentration of aqueous solution

(3) Distillation

(4) Bleaching and refining

In the first stage, soap lye will be treated with ferric chloride to precipitate hydroxyl ions. Adding hydrochloric acid precipitates the metallic soap. After thorough mixing, caustic soda will be added to the solution. Then the whole solution will be sent to evaporation. Concentrated glycerine will be ready for dispatch.

Financial Analysis

(1) **Land and building** The land required for this project is estimated at 1000 sq ft and 600 sq ft for building. It is proposed to acquire the land and building on lease.

(2) **Plant and Machinery** 12,00,000

(1) Reaction tanks
(2) Evaporators
(3) Centre fuses
(4) Saltboxes
(5) Storage tank
(6) Boiler
(7) Las operate
(8) Distillation plant
(9) Filter press
(10) Installation press

(3) **Other fixed assets** 80,000

(4) **Preoperative expenses** 50,000

(5) **Other expenses**

Postage and stationery	3,000
Repair and maintenance	6,000
Advertisement and Publicity	6,000
Telephone charges/STD/Fax	5,000
Insurance	4,000
Conveyance	6,000
Sale expense	1,000
Rent	3,000
Total	**= Rs 33,000**

(6) **Manpower**

Production	1		18,000
Processing assistant	4	4000	16,000
Lab assistant	2	4000	4,000

Unskilled labour	2	1000	2,000
Entrepreneur/manager	1		10,000
Total			**= Rs 40,000**

Working Capital

Raw material (per month)

Soap lye	
Formic chloride	7,00,000
Hydrochloric acid	
Caustic soda	
Total	**= Rs 7,00,000**

Utilities

Power	8,000
Water	2,000
Total	**= Rs 10,000**

Working capital

Raw material	7,00,000
Utilities	10,000
Salaries and wages	40,000
Other expenses	33,000
Total	**= Rs 7,83,000**

Project cost

Land and building	Lease
Plant and machinery	12,00,000
Other fixed assets	80,000
P& P expenses	50,000
Working capital	7,83,000
Total	**= Rs 21,13,000**

Means of finance

Own (35% of project cost)	7,39,550
Bank loan (65% of project cost)	13,73,450
Total	**= Rs 21,13,000**

Total cost of production

Working capital	93,96,000
Deprecation	1,28,000
Interest on bank loans	2,06,017
Total	**= Rs 97,30,017**

Total income sale

300 M.T. @ Rs 42,000 = Rs 1,26,00,000

Profitability

Profit per annum	28,65,983
Profit per annum	2,38,165
BEP	52%

Fixed cost

= 3,11,620 * 100
= 31,16,204 + 28,69,983
= 31,16,20,400 / 59,86,187
= 52% BEP

Suppliers

(1) Archir Engineering Co.
140,Dixit Road
Extension Vile Parle (East), Mumbai [Tanks]

(2) ACC Vickers Bobcook Ltd.
Express Towers, Nariman Point, Mumbai [Tanks]

(3) Mukund Engg.Works
11-B Mahal Industrial Estate, Andheri East
Mumbai 93 [Distillation plant]

(4) M/s Compact Boiler & Fabrication
44 Yusuf-Guda Bldg, 4th floor,
Veernariman Road, Mumbai 1 [Boiler]

(5) M/s Nestes Boilers Pvt. Ltd.
55 Dalmal Chambers, 17, New Marine Lines
Mumbai 20 [Boilers]

(6) Chemofab Industries
Rambaug, S.V.Road, Chenctioli, Malad
Mumbai 400059 [Centre fuses]

(7) Gopinath Engg. Co.
9/c Archana Indl. Estate
No.2, Behind Rakh jal post office, Ralchial
Ahmedabad [Storage tank]

(8) Chemtex Engineering Work
Plot No. 277, GDC Industrial Estate
Ddhav, Ahmedabad [Evaporator]

ANNEXURE 5.3

Government of Directorate of Industries
Application Form for Provisional Registration as Small-Scale Industries
(To be Filled in Duplicate)

Instructions

1. Write/type in block (capital) letters.
2. Fill up whichever is applicable.
3. Use English alphabets/Arabic numbers while filling up blocks (to help computerisation). Leave one blank after each word.
4. While filling the form, use the following procedure.
   (i) Name of the unit e.g. KAMAL ENTERPRISES/G.K ENTERPRISES

K	A	M	A	L		E	N	T	E	R	P	R	I	S	E	S			

G		K		E	N	T	E	R	P	R	I	S	E	S					

(ii)	Pin Code: e.g. 110041	1	1	0	0	4	1
(iii)	Date: e.g. 23rd June 1959	2	3	0	6	5	9
(iv)	Quantity (kg) e.g. 90 kg	0	0	0	0	9	0
(v)	Amount (Rs in thousands) e.g. Rs 5,000/-		0	0	0	0	5

   (vi) Fill in appropriate codes in the blocks wherever applicable.

	Example 1: Yes—1, No—2, Na—3						3

5. Block/boxes marked (*) are to be filled by office.
6. Applicant should sign all copies.

Abbreviations used:

SSI: Small-scale Industries **ANC**: Ancillary Industrial Undertaking **SSSBE**: Small-scale Service and Business Enterprise, **TINY**: Tiny Enterprise, **EOU**: Export Oriented Unit, **NA**: Not Applicable

ANNEXURE 5.4

____________________ Government of Directorate of Industries
Application for Permanent Registration as Small-scale Industries
(To be Filled in Triplicate)

Instructions

1. Write/type in block (capital) letters.
2. Fill up whichever is applicable.
3. Use English alphabets/Arabic numbers while filling up blocks (to help computerisation).
4. Leave one blank after each word.
5. While filling the form, use the following procedure.
   (i) Name of the unit e.g. KAMAL ENTERPRISES/G.K ENTERPRISES

K	A	M	A	L		E	N	T	E	R	P	R	I	S	E	S			
G		K		E	N	T	E	R	P	R	I	S	E	S					

(ii)	Pin Code: e.g. 110041	1	1	0	0	4	1
(iii)	Date: e.g. 23rd June 1959	2	3	0	6	5	9
(iv)	Quantity (kg) e.g. 90 kg	0	0	0	0	9	0
(v)	Amount (Rs in thousands) e.g. Rs 5,000/-		0	0	0	0	5

(vi) Fill in appropriate codes in the blocks wherever applicable.

	Example 1: Yes—1, No—2, Na—3						3

Example 2: Category: SSI—1, Anc—2,
Tiny—3, SSSBE—4, EOU—5

							3

6. Applicant should sign all copies.

Abbreviations used:

SSI: Small-scale Industries **ANC:** Ancillary Industrial Undertaking **SSSBE:** Small-scale Service and Business Enterprise **TINY:** Tiny Enterprise **EOU:** Export Oriented Unit **NA:** Not applicable

6

Family Business

The Manickbag family from Karnataka is running the family business for three generations.

"For still in every house, that loves the right, their fate for evermore rejoiced in an issue fair and good."

—Aeschylus

Learning Objectives

- To understand the role and importance of a family business
- Understand the various definitions, and types of family businesses
- Identify the model of family business, family business system governance, history of family business, responsibilities and rights of shareholders in family business
- Discuss the succession in family business and the key issues in sibling rivalry in family business
- Identify the causes for pitfalls in family business
- Identify the requirements needed to improve the capability of a family business

IMPORTANCE OF FAMILY BUSINESS

Family businesses from every trade imaginable have been around for centuries—from shoemakers to confectioners to farmers. However, did you know that the world's oldest documented family business is a construction company? According to research conducted by William T. O'Hara, President Emeritus of Bryant College in Rhode Island and author of *Centuries of Success: Lessons from the World's Most Enduring Family Businesses,* as reported in *Family Business* magazine. O'Hara's study revealed that construction company Kongo Gumi, based in Osaka, Japan, was founded in the year 578.

1. Over 75 per cent of all registered companies in the industrialised world are family businesses (OECD).
2. One-third of Fortune 500 has families at their helm.
3. Seventy per cent of firms in the United Kingdom are family owned.
4. Of Italy's 100 top companies 43 are family owned.
5. Family companies employ about 50–60 per cent of the workforce in the industrialised world.
6. Companies with founding family participation performed better than non-family businesses (Study of Standard & Poor's 500)

Family-owned businesses play a crucial role in the economy of most countries. Much of the retail trade, the small-scale industry, and the service sector are run by family businesses. Worldwide, family-managed businesses employ half the world's workforce and generate well over half the world's GDP. In the United States, 24 million family businesses employ 62 per cent of the workforce and account for 64 per cent of the GDP. In India, it is estimated that 95 per cent of the registered firms are family businesses.

In India, family-owned businesses have played and will continue to play a central role in the growth and development of the country. Indian family businesses have been and will continue to be key drivers of the economy, and what changes these businesses need to undertake to continue to succeed.

Box 6.1 Some of the Largest Family Firms Worldwide

- Wal-Mart (USA, revenues $245 billion, Sam Walton family)
- Samsung Group (South Korea, revenues $98.7 billion, Lee family)
- Fiat Group (Italy, revenues $54.7 billion, Agnelli family)
- The Gap (USA, revenues $13.8 billion, Fisher Family)
- L'Oreal (France, revenues $12.2 billion, Bettencourt family)
- IKEA (Sweden, revenues $10.4 billion, Kamprad family)
- Tata Group (India, revenues $7.9 billion, Tata family)
- Grupo Modelo (Mexico, revenues $3.5 billion, Diez Fernandez family)
- McCain Foods (Canada, revenues $3.5 billion, McCain family)

Most commercial enterprises are born as family-owned and family-managed businesses. A large number of family-owned and managed enterprises remain this way—planets in the family-centric planetary system. A smaller number, on the other hand, need access to public equity capital and in the process become non-family owned. Others could remain family-owned but professionally managed, either due to lack of interest on the part of the family or due to practical necessity. There is, unfortunately, no Rubicon that differentiates a business owned and managed by the family from a business that isn't so. Family ownership and management versus non-family ownership and management is a continuum; and arguably, some firms lie in the gray area of this continuum. For the sake of simplicity let us assume that a firm where a family (or, perhaps, a few families) exerts significant influence over the firm's strategy and its destiny is family-owned; and, firms where family members-unless professionally qualified-do not hold executive positions, are professionally managed.

Family businesses have existed in India since time immemorial. With time, the contribution of family businesses has gone beyond simply paying taxes and employing people. During the last 100 years or so, Indian family businesses have made significant contributions in three areas.

The freedom movement: Family businesses were an integral part of the Indian freedom movement. In the early years, firms were created specifically to pursue ideals such as import substitution and economic freedom from the colonists. The Godrej enterprise, for instance, was started by Ardeshir Godrej in 1897 with a vision to promote India's economic freedom.

Spirit of entrepreneurship: Family businesses have done an excellent job of keeping the spirit of enterprise alive especially through the 40 years of quasi-socialism. The spirit survived onerous taxation and repeated government attempts to undo supposed 'concentration' of economic power. Today, as India competes in an increasingly globalised economy, family businesses are playing a major role in turning the engines of growth.

Philanthropy: Lastly, Indian family businesses have played a significant role in giving back to the community. To the average Indian, names of large Indian business groups are synonymous with philanthropic efforts in education, environment, health, culture and heritage conservation. And it is not just the large groups that have been active-numerous foundations engaged in charitable work are supported by scores of small and medium family enterprises.

Indian business is overwhelmingly owned and managed by the Bania families of the traditional trading castes. It is predominantly the Aggarwals and Guptas in the north, the Chettiars in the south, the Parsees, Gujarati Jains and Banias, Muslim Khojas and Memons in the west, and Marwaris in the east. Of these, the Marwaris have been the most successful. Fifteen out of the twenty largest industrial houses in 1997 derived from the Vaishya or Bania trading castes. Eight of them were Marwaris.

Today's industrialists, thus, rose from the bazaar. Their roots in industry are relatively recent, going back largely to the World War I. Before that they were traders and moneylenders engaged in the hustle and bustle of the bazaar. Even in Mumbai and Ahmedabad in western India, where the cotton textile mills came up earlier in the last half of the 19th century, it was the trading communities who became industrialists.

Of *Business India's* Super 100 companies, 66 are family run. According to *Business Today*, family-run businesses account for 25 per cent of India Inc's sales, 32 per cent of profits after tax (PAT), almost 18 per cent of assets, and over 37 per cent of reserves.

Also, family businesses in India (and elsewhere) have several inherent advantages that provide them with unique strengths:

Trust lowers transaction costs: It is a well-documented fact that 'trust' lowers transaction costs, corruption, and bureaucracy. Trust can be a source of significant competitive advantage to a family business. In India, family businesses have often revolved around large joint families. Joel Kotkin has documented the families of Palanpuri Jains from western India, who have established commercial colonies in diamond centres as dispersed as Tel Aviv, Antwerp, Mumbai, London and New York. Today these families account for roughly 50 per cent of all purchases of rough diamonds in the world.

Small, nimble, and quick to react: Family businesses, both small and large, tend to be quick to react to threats as well as opportunities. There are fewer decision-making gates and constituencies to deal with. Very often, the survival of the family depends on the survival of the business. This results in sharp and decisive action in the face of threats that could be potentially fatal for the business.

Information as a source of advantage: Many family businesses are private enterprises. This is an advantage since a private company can see the strengths and weaknesses of its public competitor and act accordingly while the converse is not true. Further, private companies can have private strategies to which analysts and the competition are not privy. And, private family businesses have the freedom to pursue truly long-term strategies that are not constrained by 'quarterly reporting'.

Family Business Defined

There are various definitions of a family business. In fact, there are as many definitions as there are authors writing on family businesses. However, in general, a family-owned business is one

1. in which two or more extended family members influence the business through the exercise of kinship ties, management roles, and ownership rights, and/or
2. which the owner intends to pass to a family heir.

Family business writers have contributed scores of definitions in the family business literature emphasising different aspects of a family business, particularly the form and level of family involvement, or ownership control, the anticipation or occurrence of an intergenerational transfer of ownership or management control. There are various definitions of family-run business and these can be grouped into two.

1. **Structural definitions:** These definitions focus on the firm's ownership or management arrangements, for example, 51 per cent or more ownership by family members.

   "Ownership control by the members of a single family". *Barry* (1975)

   "Ownership control by a single family or individual". *Barnes and Hershon* (1976)

   "A small or closely held business". *Becker and Tillman* (1978)

   "Majority ownership by a single family and direct involvement by at least two members in its operation". *Rosenblatt, de Mik, Anderson, and Johnson* (1985)

   "Ownership and operation by members of one or two families". *Stern* (1986)

   "Legal control over the business by family members. *Lansberg", Perrow, and Rogalsky* (1988)

   "Single family effectively controls firm through the ownership of greater than 50 per cent of the voting shares; a significant portion of the firm's senior management is drawn from the same family". *Leach et al.* (1990)

2. **Process definitions:** These definitions stress on how the family is involved in the business—its influence on company policy, its desire to perpetuate family control of the business, and so on.

   "Closely identified with at least two generations of a family; link has had a mutual influence on company policy and the interests and objectives of the family". *Donnelley* (1964)

   "Members of one family own enough voting equity to control strategic policy and tactical implementation". *Miller and Rice* (1973)

   "Two or more family members influence the direction of the business through the exercise of management roles, kinship ties, or ownership rights". *Tagiuri and Davis* (1982)

   "Interaction between family and business organisation that determines the nature and uniqueness of the business". *P. Davis* (1983)

"Business, family, and founding subsystems, with a focus on linkages among them". *Beckhard and Dyer* (1983)

"Family influence over business decisions". *Dyer* (1986)

"Expectation or actuality of succession by a family member". *Churchill and Hatten* (1987)

"Transfer of ownership across at least two generations". *Ward* (1987)

"Continuous relationship between family and business". *Hollander and Elman* (1988)

VARIOUS TYPES OF FAMILY BUSINESSES

1. **A family owned business** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family.
2. **A family owned and managed business** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control.
3. **A family owned and led company** is a for-profit enterprise in which a controlling number of voting shares (or other form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And, this business has the active participation by at least one family member in the board of directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture, and strategies.

The "3-Circle" Model of Family Business

The "3-Circle" model developed by Tagiuri and Davis at Harvard (J. Davis 1982; and J. Davis, 1982,1989) incorporates family, business, and ownership systems into the definition of the family business system (see Figure 6.1). Each of these systems interacts with the others and influences their membership, goal, and dynamics. The 3-circle model has become the established systems model of the family business field.

SNAPSHOT

The 3-circle model of family business has three systems

(a) The business system (b) The family system (c) The ownership system.

There are three components to family governance.

- Periodic assemblies
- Family council meeting
- A family constitution

People in the company, industry, and the community at large all benefit from a deeper knowledge and understanding of company's heritage.

Family shareholders generally maintain their loyalty to the family business if they feel adequate pride in the enterprise and in their family, if they feel respected in the shareholder group and family, and if they feel adequately rewarded through distributions of cash and growth of equity.

Visit www.fambiz.com to learn about importance of family business.

Each system in the 3-circle model has a developmental framework and is given below.

The business system: Start up, expansion/formalisation, and maturity.

The family system: Young business family, entering the family business, working together, passing the baton.

The ownership system: Controlling owner, sibling partnership, cousin consortium.

Family Business System Governance

In a family business, the business, family, and ownership all need governance. Effective governance in the family business system generates a sense of direction, values to live by or work by, and well understood and accepted policies that tell organisation members how they should behave or what they should do in certain circumstances. Effective governance brings the right people together at the right time to discuss the right things. Good governance contributes three fundamental ingredients for a healthy family business system functioning.

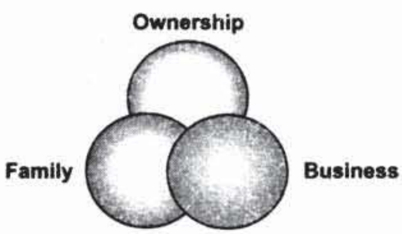


Figure 6.1 ■ The "3-circle" model of family business system

1. Clarity on roles, rights, and responsibilities for all members of the three systems.
2. Discipline to help members of the family, business employees, and owners act responsibly.
3. Regulating appropriate family and owner inclusion in business discussions.

Family business system governance structures

Most family business systems can be governed by a structure. Senior management is the organising mechanism and voice of the employees. The family council and family assembly are the organising mechanisms and voice of the family. The board of directors is the principal organising mechanism and voice of the owners. The shareholder meeting is another way to organise and provide a voice for the shareholders.

Visit www.familybusinessmagazine.com to know more about family business system governance.

These meetings are typically annual, brief, and rather formal, focusing on the election of board members and auditors and updating corporate bylaws. While these shareholders' activities are legally required and important, the board of directors, the family council, and the family assembly generally are more effective forums for shareholders for setting direction and creating policies.

Governance of the family business

There are three components to family governance.

- Periodic (typically annual) assemblies of the family.
- Family council meeting. When a family is small enough (perhaps up to 15 adult members) for all adult members to meet regularly to discuss business and family concerns and to decide on family policies all the family generally needs a council. When families grow or geographically expand beyond the point where all the adult members can meet regularly, the families benefit from a representative group of their members (a family council) that plans, creates policies, and strengthens business-family communication and bonds.
- A family constitution—the family's policies and guiding vision and values that regulate members' relationship with the business. This written document can be short or long, detailed or simple, but every family in the business benefits from developing one.

Properly composed and managed, a family assembly and council help

1. develop clarity on roles, rights, and responsibilities for family members;
2. encourage members of the family, family employees and owner families to act responsibly toward the business and the family; and
3. regulate appropriate family and owner inclusion in business discussions.

The family assembly should meet annually for one or two days, and should include all adult family members.

The family council can perform all the following duties.

1. Plan family assembly meetings, which otherwise the CEO usually has to arrange.
2. Discuss current business , ownership, family issues, and direction, and keep the family informed about these.
3. Help the family reach decisions and speak with one voice about its goals.
4. Keep the board of directors informed about family views on company and maintain a dialogue with the board about key business policies and plans.
5. Develop plans and policies, in conjunction with the board, that regulate family activity with the business.
6. Guard against family interference with the business while seeing that the family's key goals are satisfied.
7. Develop loyal, informed, and contributing family shareholders.

8. Scout the family for business talent.
9. Create educational events or otherwise encourage the education of family members about the business.
10. Plan family social gatherings and rituals and help to create healthy, harmonious relationships within the family.

Any family council that accomplishes these tasks, strengthens the family's relationship with its business and its discipline about the business and is a valuable resource for management and the board.

The family council and family assembly can be usefully involved in all of the five main plans for a family business. Among these plans, the family constitution is the cornerstone of the family's leadership efforts. The family constitution articulates a family's vision for itself and the business, the family's core values and policies and guidelines that regulate how the family will relate to the business—as employees, owners and members of the family. Among the policies a family council might create are

1. Employment standards for the next generation;
2. Career development policies for family employees;
3. Family employee compensation;
4. Succession process, including retirement ages;
5. Ownership including buy-sell agreements; and
6. Dividends.

DISCUSSION FORUM

- Discuss in small groups the contributions made by Indian family businesses with examples.
- Define family business and explain various types of family business.

HISTORY OF THE FAMILY BUSINESS

How your company came into being, the vision of the founder(s), how the company overcame inevitable changes and challenges through the years, the contributions the company has made to the community… all add up to a great story. And not just a story for your children. People in your company, others in your industry, and the community at large all benefit from a deeper knowledge and understanding of your company's heritage.

There are many reasons to create a formal history. A few of the more important are as follows.

- **Founder's vision and mission:** Why was the company founded in the first place? Over time, as the company's leadership changes hands, families often lose the founder's original vision and sense of mission.

- **Historical accuracy:** Without a formal history, people will rely on hearsay or someone's biased or misinformed perception. The company's early history and its role in the community can be lost or misunderstood, if it is not documented and preserved.
- **Honouring longtime employees:** Often, longtime or retired employees feel as if their contributions to the company have been forgotten. Family business owners may want to honour their efforts and their faithfulness in some meaningful way beyond the traditional "gold watch".
- **Thanking customers and vendors:** In any business, maintaining good relationships with customers and vendors is critical, especially when the relationships have stood the test of time. Owners need a way to document and publicly thank them for their partnership over the years.
- **Background for the uninformed:** New hires, potential clients, bankers, and investors may not know the company's background and may not be aware of the company's inherent strengths and its future potential.

Primary Benefits

- Written histories "set the record straight" and document for ever how and why a business came to be. Left to the rumour mill, stories about your company can become exaggerated, twisted, or worse. Sometimes those negative stories can become destructive to the reputation of the company or its owners.
- A company history book or video can acknowledge and honour the hard work and perseverance of the founders, succeeding owners, company leadership, and longtime employees.
- The interdependence between the company and community is documented, as is the owner's individual contributions and involvement in community affairs.
- Succeeding family members have a resource from which they can enhance their understanding of the legacy they have inherited, which in turn makes them better equipped to articulate it. The same holds true for company spokespersons, stockholders, and employees.
- Documenting the company's contributions and commitment to the community builds a sense of confidence among clients, potential clients, vendors, financers, and new employees who become a part of the company's history.
- Gathering information from and interviewing family members and employees can be unifying and fun. The process of preparing a written recorded history of the family business can even draw the community into the project, thereby strengthening relationships with other companies and key individuals.
- A hardbound book on the lobby coffee table enhances the company's image and reputation. History books and history videos are additions to PR press kits or an addition to your marketing collateral.
- Content created for books and videos can be recreated for other media including company brochures, websites, press releases, newsletters, or even a television programme for local or regional broadcast.

- Most importantly, family businesses that produce a quality history book or video have something tangible, something that will always be valued and treasured. A family history establishes a lasting and true legacy for future generations.

RESPONSIBILITIES AND RIGHTS OF FAMILY SHAREHOLDERS OF A FAMILY BUSINESS

Family shareholders generally maintain the loyalty to family business if they feel adequate pride in the enterprise and in their family, if they feel respected in the shareholder group and family, and if they feel adequately rewarded through distributions of cash and growth of equity. These feelings are enhanced in an environment of trust in the business, family, and ownership group. Building an environment of trust depends, in part, on the family shareholders understanding and accepting their responsibilities and rights.

Family business leaders or family leaders rarely clarify the responsibilities of a family shareholders of family business. Shareholder rights are better understood. The responsibilities of family shareholders include the following.

1. Be knowledgeable about company operations (products, services, locations, top managers, industry, competition, measures of performance).
2. Be knowledgeable about basic company finances and be able to read and ask questions about the income statement and balance sheet of their company.
3. Attend shareholder meetings.
4. Understand board member qualifications and participate, when useful, in the screening of board members.
5. Constructively question management and offer suggestions to management in appropriate settings, while not interfering with the management.
6. Be a positive emissary for the company.
7. Publicly support management decisions.
8. Keep appropriate company information in strict confidence and recognise that shareholders are not entitled to all company information on demand.
9. Where possible and useful, generate business leads.
10. Where possible and useful, provide additional investment capital.

Family shareholders should expect the following from the managers of the company.

1. Timely information on company strategy, important organisational changes, and the company's basic financial status (especially before this information is released to the public).
2. Openness by the company's board and the management to shareholders' views (constructively expressed in appropriate settings) on the above information.
3. The ability to participate in the election of board members (who oversee management).

4. Fair policies that protect shareholders' interests but also require their cooperation and risk taking.
5. Acceptable economic performance by the company, including reasonable dividends and capital gains.

DISCUSSION FORUM

- Explain the 3-circle model of a family business.
- Discuss the family business system governance.
- Illustrate with an example the benefits derived from understanding the company's heritage.
- Explain the rights and responsibilities of family shareholders of a family business.

SUCCESSION IN FAMILY BUSINESS

How best to pass on the business to the next generation is the greatest challenge. There is a need to make the right decisions for the family and business.

The succession plan should include the following.

- Key goals for the succession process
- A schedule of the transition stage
- Contingency plan.

Trends in the Growth of Successors in Family Businesses

It has been found that Indian businessmen come into their own only around the age of 40. This is followed by 7 to 14 golden years of rapid expansion. Subsequently, the family business goes into a quiet and dormant phase experiencing only normal growth till the next generation reaches the golden age.

Successful family businesses must depend not only on the ability of their young children but, more importantly, on the timing of their coming of age. It is necessary to chart the growth, succession, and estate management strategies of successors. Should fathers and uncles of young sons in such business families actually plan for this golden age? Do those who are given an independent business fare better than those who remain under their parents' wings? Should fathers retire when their children turn 40? Does splitting the family business at that point make sense? Many people conclude that the answers to all the questions are in the affirmative and such strategies are necessary.

A study of the heads of businesses in India, more specifically those managed by family groups, shows that the patriarch of the business usually ascends to his position around the age of 40. While, this is not an exact number, a sample of 91 Indian businessmen who are among the richest and most prominent shows that nearly 80 per cent of them came of age at around 40.

The other 20 per cent came of age at different points of time. Kumar Mangalam Birla had to take over the reins when he was barely 28 years old at the time of his father's early death while R.P. Goenka played second fiddle till the age of 50. There are others who remained mired in complex family holdings and could not take command in their golden age.

Indian businessmen are deemed to be mature and experienced enough to be given a free hand only after they turn 40. There is a "biological" reason for this. In the Indian context, the father of the businessman, who is more often than not also the head of the business, becomes interested in turning over the reins of the business to his sons in order to have an orderly succession only in his early to mid-60s. Before this he is probably too caught up in the business to give his sons independent charge. Also, he would have by then achieved social prestige, and failing health could be a factor that forces him to slow down. In all this there is a major difference between Indian family business groups and those in the West. In the West, the family at the board of directors' level and not at the working manager level dominates family-controlled businesses.

In India, members of the family are hands on and usually function as the full-time executive of the business. The head CEO consequently puts in more time than his western counterpart in general management duties. Since shareholdings in India are split up among family factions and a large number of companies are under their control, the CE also spends a large part of his time in consensus building among family members. This could be in the form of taking part in a large number of family social events and also spending time being entertained and entertaining. Among his general management duties, the family member seeks to keep control over finance and consequently spends a large amount of time scrutinising expenditure, income, and investment.

Indian family businesses rarely split voluntarily since splitting is anathema to family solidarity. Also, there are fewer self-made entrepreneurs in India. Those in the big league are usually not first-generation businessmen. Therefore, the young businessman has to bide his time for much longer than his western first-generation counterpart before being given a free hand. It takes years before members of the family let him pursue his ideas of what the business should do to maintain growth over the next generation, because his father had done this adequately for about 20 years before him. Even more alarmingly, the eldest son usually loses time even as estate matters and spheres of control are sorted out with his siblings and relatives. But he has to wait for less time than his western non-first-generation family business counterpart since elder Indian businessmen have a shorter life expectancy and retire earlier than most western business family heads.

The two strategic directions that Indian family business groups need to take are clear. The longer the golden years, the better the family group is likely to do. The first direction is that Indian businessmen must shorten the maturing process and prepare their sons so that they can hit their productive phase at perhaps 35 instead of 40. To do this would require them to invest more in education, such as in MBA, so as to shorten the learning process. They also need to plan out their assignments and careers carefully so that they acquire adequate maturity and general management exposure by the time they are at the right age.

Second, they need to carve out spheres of control and resolve estate issues earlier and voluntarily. It means that they must also be prepared to invest, grow a set of "family-like" professional managers who will continue with general management duties of the existing businesses even as the new generation begins to take the business into new directions.

Family businesses need to recognise the biological time clock ticking away among their members and realise that their organisations, as currently constituted, display low tolerance for change and stress. They must develop strategies that create management structures which can absorb rapid expansion over a relatively short time after initial years of gradual growth. The other imperative is to be able to settle spheres of control, sources of finance, and possibly estate issues among siblings and cousins of that generation in order to give them a fair shot and perhaps even prolong the a golden period of success.

First Family Succession Plan, Then Business Succession Plan

The family succession plan must recognise and accommodate the needs, goals, and objectives of each member of the family. The family's goals and objectives then become the basic building blocks for the development of the business succession plan.

It is extremely important to first develop the family succession plan and then the business plan. Otherwise the business owner will spend a lot of time and money developing a succession plan that will almost always fail. Sometimes the failure is recognised only after the death of the parents when the "plan" is sprung upon the family during the reading of the will; and the legacy the parents were trying to create for their children and grandchildren is destroyed because of greed, misunderstandings, and lack of involvement in the family succession planning process. The family succession plan should include the following.

- Strategies to put business interests ahead of the family interests
- Emphasise merit over family position
- Describe the role of the owner in the transition stage—will he or she continue to work full time, part time, or retire?
- Family dynamics—are some family members unable to work together?
- Income for working members of the family and shareholders
- The business environment during transition
- Treatment of loyal employees
- Tax consequences

Family-first Business or Business-first Family

Another important issue that needs to be determined prior to beginning the family succession plan is whether yours is a family-first business or a business-first family. The answer will significantly affect the succession planning process.

Consider the multitude of personal sacrifices the business founder made in order to create a successful business. Sacrifices that included 70-to 80-hour work weeks, no weekends, missed games, school and social functions—a business-first family. The second generation now says, "I want to be more involved with my family. I want to belong to the golf club and be a member of health club which means I have to leave the office by 4 o'clock. And by the way, my wife doesn't want me to work on Saturdays any more!" This is an example of a family-first business.

It is not necessary to calculate this with mathematical precision, but a survey helps you, your family, and your advisors focus on this critical question. Only about a small percentage family-owned businesses successfully transition to the second generation of family ownership! An even lesser percentage successfully transition to the third generation of family ownership.

The reasons for such a severe failure rate are varied and complex. Unfortunately, for those that fail to make the transition, almost all of the problems associated with generational transition can be avoided.

Succession Management

Family businesses which use the advisory board as part of their succession management process tend to be businesses that are still alive, still growing in size, and profitability. And, not surprisingly, they also tend to have healthy family relationships. They successfully transition from one generation of family ownership to the next. As part of the succession management process, the advisory board acts as a safety net for both the family and the business.

The members of an advisory board are not family business consultants. They are not trained or experienced in dealing with family business dynamics. Those difficult family issues must be recognised and resolved before the advisory board can go to work. Not dealing with these family issues will stall, even wreck, the succession management process. To be effective, the advisory board needs some infrastructure in place including a formal business plan, a written succession plan, buy/sell agreements.

Business Valuation

Business valuation is important to the family succession plan. Many family business owners consider business valuation an expensive exercise. Many also have the perception that it can be used for multiple purposes. Both perceptions are incorrect.

Business valuation is a process that does not always result in a formal written report. To be a valuable planning tool, it should be considered a part of the annual strategic planning process, not merely the result of an event requiring it.

The reasons for valuing a business are as follows.

- Buying or selling shares to employees
- Retiring and selling to other family members
- Planning gifts to heirs
- Anticipating estate tax problems

- Providing adequate key man insurance coverage
- Tracking the progress of business plans toward achievement of results
- Performance-based compensation plans
- Providing a basis for compensating key non-family management (phantom stock plans)

Buy/Sell agreements

One of the more popular devices used to transfer share ownership is the buy-sell agreement. The IRS is bound to accept the buy-sell price established between related parties and shareholders in a family business. They fight it but tax courts will uphold if the following hold true.

- It is not merely a device to transfer a business interest to heirs for less than fair market value
- The agreement is real; it is part of a bona fide business arrangement
- It is similar to arrangements entered into by others in an arm's length transaction

The important term is "arm's length". Over valuation or under valuation can lead to substantial tax penalties. Proper documentation of facts and reasoning is critical to sustainability. A business valuation will reflect these factors.

Why Financial Statements *Don't Tell Much about Value* Readers of financial statements, whether reviewed, compiled, or audited, somehow presume that net worth is really net WORTH. Financial statements are prepared to present the results of the company's financial history for the past year(s). They are not prepared to imply an amount that someone would actually pay for your equity. A business valuation, on the other hand, is prepared for the sole purpose of estimating what an informed buyer would pay an informed seller. Business valuation is an art, not a science, and it takes into account not only the numbers, but also everything else about the business that you or anyone buying it would consider important.

Succession Planning Obstacles in Family Businesses

- The sooner the succession planning process is started the better, for you will have more options. Another advantage is that options, such as buying life insurance to fund the stock ownership transfer, tend to be less expensive when the owner is 45 than when he is 65.
- A child may have the right to inherit the business, but the right to manage the business must be earned. Children must be urged to work at least two years outside the family business so they can learn different skills and experience making mistakes.
- Establishing an outside advisory board to help manage the transition allows trusted non-family business professionals to help deal with tough issues. This advisory board is constructed differently from a board of directors and can be a very cost-effective vehicle for bringing good advice and experience from outside.

- Conducting formal family meetings can help solve problems while they are small. Having experienced family business consultants lead the first few family meetings can help establish and keep the family focused on the rules, goals, and objectives.
- Develop non-business interests.
- Develop financial resources that are independent of the business.
- The best succession plan might be to sell rather than transfer.

Sometimes, with family businesses, the focus is so much on succession that the most logical alternative is completely overlooked.

If the family strategic plan and the business strategic plan have been done, we see two situations where selling is the best alternative.

- The business can not evolve with the changing conditions or environment. This inability to evolve might occur because it can not find the right people or because technology or environmental factors necessitate capital investment or expenditure beyond the ability of the family/business to raise capital.
- The business has not been able to find and develop a **competent** successor.

It is not easy for a family and business to objectively face reality in either of these situations and there is the stigma of "defeat" or "quitting" that is often associated with a decision to abandon a goal. But the harsh reality is that in either of these situations, failure is almost certain and will happen even if the family decides to ignore reality and try to continue with the business / transfer. So, failure becomes a matter of **when** not **if**.

In either case, early and realistic recognition will let the family sell the business rather than lose its investment and at least have the proceeds to carry on their goals in other forms.

Evaluate a competent successor

- This starts with the key elements in the succession planning process where the family and the business identify the culture, mission and strategy, and who they need to lead them to fulfil the mission. This process will naturally identify skills and competencies and these should be built into job descriptions and development plans for the successors. The successor's progress in meeting and developing skills and competencies should therefore be extensively measured and documented by many people throughout the organisation on a regular and continuous basis.
- This evaluation process can be extended beyond just immediate supervisors within the business—the advisory board and customers and suppliers can also be incorporated into an evaluation process.
- Less objective and more difficult to measure, but critically important, is to evaluate how the potential successor handles leadership and power. In a nutshell, can he/she take over the reins of power and provide leadership that will be accepted by the organisation and by the family. This is tricky to test and evaluate.

SNAPSHOT

The succession plan should include the following.

- Key goals for the succession process
- A schedule of the transition stage
- Contingency plan

Succession—Three ways to ease transition.

- Hire the most competent advisors you can find and afford
- Business valuation is a critical element of succession planning
- Funding is often a hidden or non-recognised cost of succession planning

If the outgoing CEO shelters the potential successor, and decrees the authority, the successor is not tested against the "yes men" who are passive and accommodating—until after the outgoing authority is gone—then they rise in opposition to thwart and block the previously sheltered successor.

At the other extreme, the "shark tank" approach turns two or more potential successors loose in the business and lets them fight it out.

Either approach can be devastating to the business and neither offers any realistic prospect that a suitable successor will survive. [The sheltered successor might well not toughen up under pressure; sharks do not necessarily make good leaders.]

- A realistic outgoing CEO and family often seek the help of outside advisors or an advisory board to ensure that the job rotation and/or special assignments for the successor include situations where he/she will have to seize or assert some authority to be successful. Over time, the successor will have built a solid power base from within rather than just being handed power.
- Perhaps even more difficult to measure, but critically important, is motivation. Does the potential successor really want to assume control? He/she might want the job, even really want it passionately, but for reasons such as being the eldest, for the power or prestige it might bring them... or for any number of other reasons... but is it really what they want to do?

Fairness equals performance expectations

In the obstacles to succession, it has been noted that parents often felt that fairness meant giving each child an equal share of the business even when they might not have contributed equally to developing that business.

Another aspect of fairness is in the area of performance expectation. Unless children earn their position on the basis of merit, unless they are expected to be accountable for their performance in the business just like any other employee, it will not be possible for them to effectively assume leadership after a succession/transition. So we have found that a key to success is to set the standard for performance and accountability from the earliest involvement.

Less frequently, a parent sets the standard much higher for members of the family rather than lower and this turns out to be just as much of a problem.

- Set a standard for the business—members of the family must leave family behaviour at home and act like an employee. (Work outside the family business for part of one's career really helps here to show the standards of behaviour that other organisations set.)
- Graduated retirement... but set and stick to a final date!

As the time for succession approaches, take longer and longer absences—both for the outgoing CEO to get used to being away, for the opportunity they offer to evaluate the potential successors, and for the organisation and its customers and suppliers to get used to the fact that it can operate under the planned new leadership. But announce and stick to a date of withdrawal/succession.

As for the "outgoing" person having a continuing role, this has happened admirably—and also failed spectacularly! The key to success is clarity and self-discipline. If an ongoing role is agreeable, defines its role, responsibilities, authority, and accountability like any other job, stick to those parameters and make sure that everyone knows that is all you are there for!

Use some (or maybe even all) of these tactical hints to help **your** family business prepare for and successfully make it through a transition of leadership.

Box 6.2 Creating Family Legacy for Future Generations

- Family foundations have a valuabie use in succession planning.
- Unless a family business owner has something to move to, he or she is not likely to move from the family business. It is not just a matter of a title, but a place where they can be involved in what they have created. The family business is their "theatre", it is how members of family business are defined; it is where they go for validation. For many family business entrepreneurs, the idea of not being part of the family business is a concept that provokes many emotions.
- One strategy we recommend is to have the family business entrepreneur consider creating a family foundation. This is not something that goes into play after the person dies, but something that can capture their creative energy while they are still alive.

Succession—Three Ways to Ease Transition

1. Hire the most competent advisors (attorneys, accountants, financial planners, and business consultants) you can find and afford. Succession planning is a complicated process and requires different kinds of expertise. Not every professional service advisor has the special training and experience necessary.

For instance, few lawyers, accountants, family therapists, and psychologists are specifically trained or experienced in this field. You may wish to consider using family business consultants to act as a quarterback for the succession planning process. All too frequently, different advisors to the family business owner develop costly and ineffective sequential solutions to the complexities of succession. If someone is selling elevators, escalators are usually never recommended as a means of transporting people within a building.

2. Business valuation is a critical element of succession planning. There are many reasons to value a business. Unlike socks where one size fits all, one valuation does not fit all situations.

A valuation for sale to the next generation of family has different formulas than a valuation for sale to someone outside the family. Yet a different formula would be used for estate tax planning purposes.

Depending on the purpose of the valuation, costs can vary significantly. Less complicated valuations done for planning purposes can be very affordable.

Some family business owners value the business every year as part of their strategic planning process. Others use the valuation as a means for determining performance-based compensation for key executives (phantom stock) rather than choosing to dilute the ownership of the stock to a non-family key executive.

3. Funding is often a hidden or non-recognised cost of succession planning. It is important to understand that the business may need to grow significantly in order to pay the transition costs which include taxes, insurance, professional advisors, setting up trusts, and purchasing business stock. Or, funds that would be available for expansion or to pay out to the family will have to be retained in the business for the transition. Either way, planning for this cash flow requirement will ease the transition.

A good rule of thumb is that the business needs to grow by at least 20 percent more than the normal growth pattern to offset the costs of succession without disrupting the profitability and cash flow of the business.

DISCUSSION FORUM

- Discuss in small groups the importance of succession planning in a family business.
- Identify the points to be taken into consideration while developing a succession plan in a family business.

PITFALLS OF THE FAMILY BUSINESS

Family feuds—whether they start in the family and spill into the business or start in the business and affect the family—are a major factor in family businesses having such a poor survival rate.

One of the misconceptions many people have is that a successful family business equates to having a common "view" amongst family members of how things are done and when.

In fact, it is just the opposite that is true. In successful family businesses, there is a surprising amount of disagreement or lack of consensus when new ideas or issues are first being debated and discussed.

What makes the difference is that in healthy family businesses, the dialogue is aimed at creating "positive tension" whereas in dysfunctional family businesses, the "tension" created by the dialogue is destructive and results in family feuds. The reasons may be (i) a difference in age and experience, as is typical between father and son; (ii) differences in educational levels;

SNAPSHOT

Causes of pitfalls of family business are as follows:

- Lack of focus and strategy
- Nepotism in family
- Lack of professionalism
- Inability to separate the family's interest from the interest of the business
- Sibling rivalry in the family business

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(iii) sibling rivalries or rivalries between cousins which usually end in a separation; (iv) differences of attitude towards employees; (v) differences in the way each would like to define the business or restructure it; (vi) differences in value systems, which may affect ethical practices or corporate governance; (vii) difficulty in keeping a professional distance among family members. Emotions often tend to cloud rationality and judgement. Often, the same argument by an outsider is more acceptable than when made by a family member; and (viii) different promoters are not equally gifted in all aspects of business.

Indian family businesses have clear and numerous weaknesses. The four most important ones are

1. an inability to separate the family's interest from the interest of the business;
2. a lack of focus and business strategy;
3. a short-term approach to business, leading to an absence of investment in employees and in product development; and
4. insensitivity to the customer, largely because of uncompetitive markets, but resulting in weak marketing skills.

The biggest failing of Indian companies is that they want to do everything. The vast majority of big family businesses in India lack focus.

A second major failing of Indian business is its short-term focus—it does not invest in its people, or in R&D. Its lack of attention to human capital is evident right at the start in how it recruits new employees.

Indian business is overwhelmingly owned and managed by families. This is, however, not necessarily a disadvantage as long as the family firms are able to overcome their historic weaknesses. They have to learn to separate the family's interest from the company's interest, create the environment to recruit and retain outside talent, bring focus to their operations, use a joint venture to upgrade their skills and knowledge, and follow a consistent strategy.

Nepotism (favouritism shown to members of the family) in family firms is a normal occurrence. This can leave a negative impact.

- It limits drastically the available pool of potential leaders to draw from.
- Non-family members who are highly motivated by position and rank will be dissatisfied to work in family firms for very long as they perceive their chances of "moving up" are limited at best.
- It has significant impact upon the recruitment, training, reward system, and career development programmes for non-family members of the family firm.

Combining all of the above, the problem reaches a critical stage when key employees, who are non-family members, become disenchanted and disappointed when non-qualified, inexperienced members of the family are "promoted" to important positions within the company. At this point, many years of experience and service are lost, as the non-family member seeks employment elsewhere.

Preliminary results from a comprehensive survey on family business suggest that conflict bubbles up in family businesses fairly regularly. The survey was carried out by Paul Karofsky, Boston consultant Jack Troast, Professor Karen Vinton of Montana State University and Ed Cox, a family business consultant and psychologist in California. Results showed that about 42 per cent of those involved in family businesses dealt with conflict three to four times per year, while approximately 20 per cent reported weekly conflict, and a similar percentage reported monthly disagreements. For the majority of respondents, this conflict was no surprise—60 per cent were already dealing with particular issues or problems before a larger conflict occurred. For another 40 per cent, however, there was no communication about conflicts bubbling below the surface until a crisis had taken place.

About 43 per cent of the respondents said that their family business colleagues ultimately managed the conflicts openly and directly by talking them through. Approximately 20 per cent said their families did not discuss what was happening, while about 15 per cent left conflict resolution to their business's founder.

In terms of intensity, about 42 per cent characterised family conflicts as "moderate", while more than 14 per cent characterised them as "difficult". An interesting finding—and one that is being further analysed—was that the less frequently conflicts were reported to occur, the milder they were perceived to be.

Sibling Rivalry in Family Bussinesses: Key Issues

Family businesses can never realistically expect to be completely rid of problems created by sibling rivalries. The best that family businesses can hope to accomplish is to minimise the conflicts.

Box 6.3 Seven Simple Tips to Avoid Conflicts in Family Business

- Make time to understand the points of view of others—the payoff can be huge.
- Understand we make a difference. One conversation at a time—don't try to out shout everyone else.
- Seek more information and insights from those with whom you disagree—ask for amplification and examples that will enable you to better understand other points of view.
- While disagreements on issues may be strong, do not forget the family's values are a shared bond and represent a shared commitment to the common good.
- Create "rules of behaviour" for family meetings and abide by them—being family does not excuse boorish behaviour or lack of business etiquette.
- Do not ridicule or be sarcastic to other family members—know and understand that being in a family business does not result in solidarity of opinion.
- Establish time limits on discussions and debates—when that time limit is reached but closure is not attained, table the topic for further research and put it on the agenda for discussion at a future meeting.

Coping Approaches

Broadly speaking, the principals of family businesses can take either of two approaches to cope with sibling rivalries: an arbitrary approach or a managed approach. By examining each of the approaches, we can offer insights and suggestions for how owners of family businesses can most effectively move through the minefield of sibling rivalries.

Arbitrary approach

The most common technique used in a number of countries through the ages to deal with sibling issues has been to mandate passing family wealth and power to the oldest son. In many family businesses, the founding generation developed implicit agreements under which the older sibling would prevail in situations where several siblings worked in the business.

Such an arbitrary approach may work for a while when siblings are young and the doctrine of "might makes right" enables the older sibling, through dint of physical size and intellectual development, to dominate. But the transfer of this doctrine to the family business is fraught with danger.

The siblings in a family business may collude to continue the system, out of habit and a "wish" to keep the family together. But it almost never works in the long term. Sooner or later, when the siblings grow up, the younger siblings discover that they do not want to play along with the masquerade as mature adults. A number of older generation family members are very fearful that their children will experience the same heartache, loss, and pain with their siblings as these older individuals experienced with their own brothers and sisters.

Managed approach

Siblings who learn to manage their rivalry issues often become much closer and trusting as a result. They can then use the closeness of their relationship as an important business and personal asset. As a result, the family and the business can each benefit from a shared value system and efficient decision making.

How can brothers and sisters in a family business learn to manage their relationships? By defusing the two most important issues around which sibling rivalries revolve: succession and compensation.

In many family businesses, the issue of succession—selection of the person or persons who will be in charge after the parent or founder is gone—exacerbates longstanding sibling tensions. Too often, this issue is never discussed, either because it seems impossible to resolve or, at a minimum, requires difficult and painful decision making.

Similarly, the matter of compensation often ignites simmering tensions between siblings. Among those who work for the firm, there is the matter of whether there should be equal pay for equal work, even when the contributions of the individuals involved are unequal. Disputes can also arise between those who own stock and manage the firm and those who own stock and have no management role.

Defusing Tensions

The most effective way to defuse these issues is for each member of the family to agree upon and participate in a sustained family dialogue. It may be necessary to use experts to facilitate the dialogue in the beginning, or at points along the way. During this dialogue, the actual process of communication is extremely important.

Box 6.4 Tips for Controlling Sibling Rivalry in Family Business

- *Open communications* "The number one issue hands down is communication. If you know there is stuff going on, you have to get it out. To know there is a time and place you can express it is such a relief."
- *Clarity of roles* It is essential that siblings know exactly what their job expectations are. There is a need to have roles clearly spelled out to avoid conflicts.
- *A sense of humor* Use humor to release tension and keep things in perspective. "When the worst things happen try to figure out what to do."
- *Time away from the business* Siblings should make it a point to go off-premises for informal time outside of the business setting. It is necessary to do things like go to a local restaurant together or simply talk on the phone during off-hours.

Box 6.5 The Changing Environment of Family Business

Sellers' Market	Buyers' Market
Family Wealth	Shareholder Value
Growth	Eva (Economic Value Added)
Diversification	Core Competency
Family Succession Planning	Attracting Managers

Visit www.entrepreneur.com to get the live cases on sibling rivalry in a family business.

At the same time, actual family business issues can be discussed. For example, the family should examine and deal with the issues of future leadership and compensation. Getting these issues out in the open, in a constructive dialogue, can go a long way toward easing sibling rivalry issues.

DISCUSSION FORUM

- Discuss in small groups the causes of pitfalls in Indian family business with examples.
- Discuss the key issues in sibling rivalry in family business.

STRATEGIES FOR IMPROVING THE CAPABILITY OF A FAMILY BUSINESS

Family firms must be able to professionalise: The success of the Italian, French, and Chinese small enterprises suggests that being a family firm *per se* is not necessarily a disadvantage. However, a successful family firm must be able to professionalise. It must be capable, for example, of recruiting and retaining outside professional talent. In a competitive world, it must be able to get the best person to run the company. If a member of the family is not the best person, then it must be willing to hand over the management to an outsider.

To professionalise means that the family must make the mental leap and separate ownership and management, and distinguish between the family's interest and the company's interest. Most Indian companies are in transition today. They are painfully coping with the problem of incompetent family members at the top of many businesses. Rahul Bajaj says, "It is easy to get rid of an outside manager, but how do you get rid of a family member? You must either do what is right for the business or the family. Either way, you will end up with an unhappy family or a weak company."

As a result of competitive pressures unleashed by economic reforms, it is beginning to dawn on Indian businessmen that superior companies are built by superior people; that the success of their company depends on their attitude towards men and women of high ability and advanced training.

Trust and cooperation are necessary in all market activity. High trust can dramatically lower transaction costs, corruption, and bureaucracy. While family capitalism may be successful in Italy, Taiwan, Hong Kong, and France, it seems also to be accompanied by education and a strong work ethic. Otherwise, it leads to nepotism and stagnation. Many large and successful Indian companies have also begun to realise that educated, hard working professionals usually outperform lazy, uneducated nephews.

Familial capitalism is not necessarily a disadvantage or a weakness in the global economy. The inability to professionalise—to bring in and retain outside talent, to institutionalise, to separate the family's interest from the firm's interest—is clearly a weakness. In successful exporting nations, family firms have overcome this weakness. In India, they are still grappling with this issue.

The demise of the joint family: A more unique characteristic of Indian business, at least until recently, was that it was managed as a joint family and derived a competitive advantage from this fact. A famous example as stated earliler, is of the Palanpuri Jains of western India, who have established commercial colonies in such diamond centres as Tel Aviv, Antwerp, Mumbai, London, and New York and who today account for roughly 50 per cent of all purchase of rough diamonds in the world. Owing to the inherent trust in a joint family, the Jain diamond merchants rely on inter-ethnic ties to keep this highly scattered, specialised, and intrinsically high-risk business together.

Replenishing entrepreneurship: The number of family businesses is increasing day by day. Almost all companies, all over the world, start off as a family concern. In

India, in 2003, the number of companies registered in the private sector was 54,0026 and collectively they had an authorised capital of almost Rs 900,000 crore.

Good management: In USA, over 65 per cent of business – and the more profitable sector of USA Inc – is family business. This little fact is not much in the news because most of these family-run businesses are privately held.

Ability to change: The issue is not family business but Indian business. How can Indian management improve? And how can it speed up the pace of improvement. It may be that when push comes to shove, family firms are more nimble than their more bureaucratic "professional" brethren.

Have a strategic plan: If a family business does not have a sense of its future, it cannot know the knowledge, skills, and expertise that will be required of the next generation of leaders. And the next generation of leaders must work hard to acquire their leadership skills.

Have an active board of directors: The board will help assess four key foundations for the business's healthy state of affairs: the CEO's readiness for succession, critical family relations, ownership structures, and management structures. The board plays a number of other roles as well.

- A board must stimulate, provoke, challenge, and support leaders.
- The typical CEO in a family business holds that job for about 20 years, while in non-family businesses CEOs are in place for four to seven years.
- Yet few people are so brilliant that they know everything necessary to maintain their position for 20 years. Some scholars believe failed leadership is one of the biggest problems in family businesses.
- Advisors must focus on the company's macro, long-term issues.
- Experts contend that an advisory board should include outsiders. For example, a seven-member board with four outsiders and three insiders is effective. Regardless of the size, a good board that pulls a 4-3 vote will stop and figure out what is going on.
- Some scholars say that friends, former employees, or paid advisors such as accountants and attorneys should not be put on the board.
- There is too little emphasis placed on board management. The chair's job is to manage the board, so it is important to pick the right person. This may mean separating the chair and CEO positions, since the head of the company will be too busy to devote sufficient time to manage the board.
- Hold frequent family meetings. It's important to create a mechanism that reinforces the family community and solves family conflicts.
- Formal family meetings should occur at off-site locations on a quarterly or semi-annual basis.

IMPROVING FAMILY BUSINESS PERFORMANCE

Some family-owned businesses have a long-term history of consistent profitability. Others, however, have a similarly long-term history of weak performance. The obvious question is why. There are a small number of salient factors, which are critical. Ultimately, these factors coalesce into a series of "core business values" which can substantially determine the FOB's performance throughout the entire course of its existence.

Concept of "Core Business Values"

The management of every family business requires that decisions be made about myriad issues. The totality of these decisions becomes, in effect, the family's core business values. Of particular importance are the family's core values regarding the training of the members of the family entering the business; the future; finances; and the accountability of these members? Depending on the circumstances, the family may adopt these values consciously or unconsciously, or for that matter, willingly or unwillingly. Regardless, the functionality of the family's core business values is crucial to its performance, both short and long term.

Critical Core Business Values Impacting Family Business Performance

Given that every family business has its own dynamics, it would be impossible to definitively identify a list of core business values in order of their importance to all family-owned businesses. Nonetheless, it has been held that four dysfunctional core values tend to be particularly common to under-performing companies. Specifically, these involve the training of the successor generation, the family's outlook on the future, accountability, and finances.

Training

For some reason, the need for sound training is often overlooked on a regular basis in family-owned businesses. In part, this is because of a surprisingly common belief that a college education and a little bit of exposure to the business should be enough to prepare an incoming member of the family adequately. Most particularly, there are two areas that are consistently overlooked. First, the benefit of working for a meaningful period of time outside of the family business is typically underrated.

The second area that is typically overlooked is the training that should take place once a member of the family joins the business. In particular, the benefit of substantial exposure to every critical aspect of the business is not recognised. Additionally, there is generally no formal effort to continue with outside training, be it through additional course work, workshops, industry-based programmes, and so on. In today's fast moving and competitive environment, the need for consistent training experiences is particularly vital.

HOW TO OVERCOME NEPOTISM IN FAMILY BUSINESSES

There are several positive steps a family firm can take to alleviate the problem of nepotism. Probably one of the most common solutions is to get the member of the family to go out and prove him/herself with other similar companies.

Whenever the son/daughter of one of the family firms get to the position where they feel they want to continue in the business, the CEO sends them to another family firm where they are hired just like everyone else, and are given the opportunity to "work their way up" in the firm (or fail, as sometimes happens). After approximately three or four years, if the member has been successful, he/she is brought back to the "home" family firm and given an opportunity to continue his/her career—hopefully leading to "taking over" the business when dad retires.

This method does not always guarantee success. However, it does provide a way for sons/daughters to get the necessary training and experience they need in a non-pressure atmosphere and it forces them to compete on an equal footing with non-family members during their training and development period.

Another solution to the succession problem is for the present CEO of the family firm to form a "mentors committee team" for the son/daughter who is to take over the family firm. (This assures the successor has been working their way up in the firm—maybe he/she is now an account or department executive). However, for the son/daughter to go from mid-level management to being company president is a big step—there needs to be some smaller steps along the way. Such things as how to manage people, how to separate people who have agendas that are not his/hers and myriad other things a company president must know, must be learned before taking over as president or CEO.

The mentors team is normally headed by the CEO of a similar company, is usually a friend or business associate of the father, and is from outside the family firm. Other members of the mentors team are senior executives of the family firm itself.

Many large corporations have executive training programmes for younger members of the family who desire to take over the business when the head of the family retires. These programmes are normally from six months to two years in duration and provide essential training and development for the successor in the family-owned business. These are termed as "Executive Training", "Management Development Training", and "Training and Development Programmes" for new executives by some major corporations. However, all have the same objective—to assist in the training and development of the younger generation and teach them to run the business so that they may, at some future time, be able to take over from the older generation.

Not all family firms have the option of sending their sons/daughters to other corporations' training programmes—nor would they want to. But, it is an option for families which have family business franchises in one of the large corporations. These are some of the methods that can help the succession process. There are others, but those mentioned have been used quite successfully by different family firms in the past.

MANAGEMENT DEVELOPMENT PLAN IN FAMILY BUSINESS

The management development plan is generated by the top management in the business. The purpose is to predict key executive staffing needs and plan the career paths and management development programmes of key family and non-family managers. In most cases, the investment of time in this work is not great, but the payoff is.

The management development plan identifies the key jobs in the current company and the current age and career aspirations of all key managers. It then predicts what jobs will or should be vacant in the future and considers who should fill them. At the same time, the top managers consider how best to find or develop managers to fill key openings.

The top management in a family business also has the important job of balancing the development of heirs in the business with encouraging and protective teamwork among all employees. They need to plan a career path for the potential successor that ensures his or her development and also supports the key non-family managers. These managers should discuss how family managers will be developed and the priority of their development in the overall management development strategy. They should then communicate this policy to managers and employees. All of these activities may proceed concurrently.

Who Should Create the Plan?

Besides the owner-manager, it is recommended that the group creating the plan be composed of the business's top human resources person, and the top managers from each of the key functions or divisions in the company. It should be a small working group (four or six members) with other managers invited to attend discussion of particular issues. The top management serves as the advisory group. The owner-manager has the final word. While the top management provides critical data for the plan and serves as a sounding board for development ideas and policy, the owner-manager may find it helpful to meet separately with an advisor who can help to bring out existing goals and values regarding developing successors and what priority their development should have.

Unless the family successor is in one of these key positions, it is recommended that he/she not be part of the group. That is because a key function of the plan is to discuss the successor's career path and performance and these discussions will be more productive if the successor is not present. However, he/ she should be asked to meet with the top management to talk about his or her progress in the company.

Typical Agenda Items

- Given the firm's strategy for the future, in what areas do we expect to grow or shrink, how fast, and what will be our management staffing needs? How can we maintain flexibility to meet unexpected high or low growth conditions?
- Are there positions in the company where a certain level of turnover is not only accepted but should be encouraged?
- Who are the business's key managers; when are they likely to leave their current jobs; and what jobs should they move to?
- To become an owner-manager, what jobs are most useful to do inside and outside the business? What kind of a career path assures a successor the greatest likelihood of developing into a successful owner-manager?
- Will the successor find himself/herself stuck behind a manager who will not be moved and hence will not permit the successor to experience the job? What

is the company's policy about moving key non-family managers to benefit the career development of family successors?

Creating the Plan

Since creating the management development plan is a special function of the top management group, convening a meeting to work on the plan should be easy. The typical difficulty is to get the group to focus on the company's management development needs and, especially, the development of the successor (or successor candidates).

To initiate the work on the plan, copies of management development plan and your organisation chart should be sent to the top managers, asking them to respond to the following requests.

- Draw the company's organisation chart as it will exist five years from now.
- Circle the positions on the future organisation chart, at all levels, that are most critical for the business. The focus should be on jobs, not the individuals in them.
- List the names of individuals in those jobs now and their age now and in five years.
- Given the ages of the key managers in the next five years, who will be retired, who might want to leave the company for other opportunities, and who should be moved into other jobs?
- What is the age of the owner-manager and what should he be doing in five years?
- What is the age of the successor and where should he/she be in five years? What is the best career path for him or her in the next five years and later? If the successor needs to learn jobs filled by others, will other managers be moved out of their jobs to create an opportunity for him or her?
- What are the ages of key non-family managers and what are the best career paths for them?
- What policy or policies can be derived from these discussions? What should be communicated to the successor, managers and employees?

FAMILY REUNION GAMES PROMOTE FAMILY VALUES

Family reunion games can be much more than fun time with the family. They can also be powerful learning tools that enable family members to revisit and reflect on the values of the family. They can be a powerful way to help families bond. Families in business together can use them to teach younger members of the family about family values and business ethics.

Family reunions are a special feature of well-bonded families. Family rituals may start out as "dinner" every Sunday at mom and dad's house and then expand to family get-togethers elsewhere—and even to larger-scale family reunions for the entire family clan. Documenting these family rituals can be part of a family reunion game

Box 6.6 The Family That Does Business Together Stays Together

- "It was my elder brother, Dhamabhai Jhakavadia, who encouraged all the members of the family to work together yet run separate stalls," says 80-year-old Jivabhai Jhakavadia, who decided to join the family business in 1961.
- As he was the youngest, Jiva's six brothers decided to make him a partner in all six stores so that he could work and gain experience. The tradition continues till now with the youngest son of the Jhakavadia clan being given partnership in all shops owned by his cousins and relatives.
- The Jhakavadias also encouraged their sons-in-law to set up stalls and also gave them necessary training in the field. "Girls from our family are skilled in embroidery. When they are young, they help their fathers and after marriage, they help their husbands."
- Stall owners have moved from intricately embroidered *chaniya cholis* to flashy and cheap salwar kameez. "Earlier, people would recognise the value of fine embroidery but now they want glitzy and cheap items. We have to cater to public demand," says Vanibhai Dalaria, who has been in this business for the last 20 years.
- However, the family is clear on one business practice: no fixed prices and no competition among family members.
- "We never resort to tactics such as pulling customers away from each other's stalls and never compare our products with each other and if the customers do so, we politely ask them to buy whatever they think is the best," says Upendra Devalia, who also heads the association of stall owners.
- While the families reside in Maninagar and Vasna, the senior members meet once a month and work out plans to participate in fairs in Jaipur, Mumbai, and Delhi.
- "We try to display the best of our products in fairs outside the State and all of us contribute for such events," says Janaben, who trains the young girls of the family in stitching and embroidery.
- Despite the ups and downs in business and various eviction notices from the Ahmedabad Municipal Corporation, this huge family has stuck by each other. They obviously believe that the family that does business together stays together.

that becomes part of the family history. It is not surprising that so many family businesses have "summer picnics" and like kinds of events for their employees and families—after all, they are part of the extended family of the family business!

Family reunion games can produce many benefits for a family in business together.

Family bonding is a crucial component of every successful family business. Family bonding is part of the business family communication systems that encourages growth and prosperity for the business while at the same time promoting healthy family relationships. Family reunion games promote family bonding within a fun-filled context that can include members of all ages.

Family values always influence the way the family business is managed and operated. The ethics of the family business are shaped by the values of the family. Likewise, concerns about members of the family—for instance if they have problems with alcohol and drugs—are also issues that must be confronted if they become problematic in the workplace as well. With family businesses, there is ever an ongoing dualism—how the family influences the business and how the business influences the family! Family reunion games encourage members to reflect on the values of their family and their business.

In Rajashri film house Sooraj Barjotya has carried the tradition of showing joint family in movies for e.g. *Hum-Saath-Saath Hai, Hum Aapke Hain Koun.*

Family religion plays an important role in the family and will also influence the family business. Mohammed is a very devout Muslim who founded Kazana, a fast food restaurant. In deference to his religious beliefs, this restaurant is not open for business on Friday. Family reunion games can help articulate how the family's religious beliefs and convictions influenced the philosophy of how the business would operate.

Family secrets are part of almost every dynastic family business. The family secret formula for Coca-Cola is locked away in a high security bank vault. Television commercials tout the Bush family's secret formula for their line of canned beans. Family reunion games can teach younger members about the family secrets—at least some of them!

Family rules are first applied to family-business children in the context of the family. Discipline and hard work are generally taught at an early age. It is not uncommon in business families for the children to be working in the family business when they are still in school. Many of the rules that govern family relationships (honour and respect your parents) have a profound effect on the family-business children as adults and managers of the family business. Sometimes these feelings are so strong that they impair the succession management process. Family reunion games can help explain the reasons behind the family rules.

Family fun is rarely recognised as a vital component of a successful and healthy family in business together. It certainly is! Many family businesses started as part of the family's recreation. A family interested in boating ends up in the marine business or in the building of houseboats and sailboats or catering to the huge array of marine accessories. In many ways, this family reunion game is unique because the more you play the Family Lore game, the more it becomes customised for every family that owns it. Every family, creates its own unique copy of this family reunion game.

Box 6.7 Family Lore Game

- Family Lore is the invention of Bob McClure. Bob and his wife were schoolteachers with young children and living on a tight budget.
- One Christmas they were strapped for funds. So instead of overloading their credit cards, Bob decided to create a board game that the entire family would enjoy. That was the birth of the Family Lore Game!
- When relatives and friends learned about Bob's new family fun game, they begged him to make one for them too!
- Over the years, Bob perfected Family Lore and today it is presented as a professionally produced board game.

HOW TO SAVE THE FAMILY BUSINESS

Management literature and programmes deal almost entirely with publicly owned and professionally managed companies. Yet the majority of businesses everywhere are owned and run by members of the family. They even include some of the world's largest companies. If the family-managed business is to survive, let alone prosper, it must stringently observe the following rules.

Rule I: Formulate Policy Framework and Rules

Policy framework that forms part of a succession plan can be used to clarify many difficult issues. A succession plan should outline exactly how the transfer of leadership will occur and should establish the criteria that heirs must meet before being deemed ready to assume their leadership role. It would be better if the heir would first get a job/qualification with some other company before assuming a critical role with the family business. In other words, the heir should first demonstrate his acumen elsewhere.

Rule II: Families Must Serve the Business

Management guru Peter F. Drucker devised four guidelines that he believes family businesses need to follow to ensure their survival.

1. Family members working in the business must be at least as able and hard working as any unrelated employee. In a family-managed company, relatives are always "top management", whatever their official job or title. Mediocre or lazy family members are therefore—rightly—resented by non-family co-workers, and respect for top management and the business as a whole rapidly erodes. Capable non-family people will simply not stay, and the ones who do soon become courtiers and toadies. It is much cheaper to pay a lazy nephew not to come to work than to keep him on the payroll.

   Dupont, controlled and managed by family members from its founding in 1802 until professional management took over in the mid-1970s, grew into the world's largest chemical company. It prospered as a family business because it faced up to this problem. All male Duponts were entitled to an entry-level job in the company, but five or six years later four or five family seniors carefully reviewed their performance. If this review concluded that the young member was not likely to be top management material 10 years later, he was eased out.

2. Family businesses should look to fill vital staff positions with non-family members. Family-managed businesses, except perhaps for the smallest ones, increasingly need key staff positions with non-family professionals. The demands for knowledge and expertise—whether in manufacturing, marketing, finance, research, or human resource management—have become far too great to be satisfied by members of the family alone, no matter how competent they may be. Once hired, these non-family professionals have to have "full citizenship" in the firm. Otherwise they simply will not stay.

3. No matter how many members of the family are in the company's management, and how effective they are, a non-relative must fill one top job. Typically, this is either the financial executive or the head of research—the two positions in which technical qualifications are most important. There are, however, successful companies where an outsider heads marketing or personnel. And while the CEO of Levi Strauss is a member of the family and a descendant of the founder of this company founded the year 1853, the President and Chief Operating Officer is a non-family professional. Such an outsider can be objective and does not have to worry about the reactions of relatives, whether in the business or not.
4. Succession planning should be overseen by an outsider, that is, by someone who is not a member of the family or an employee of the company. This is so that the stake that the person may have in future of either the family or the company will not bias the outsider. Before the situation becomes acute, the issue of management succession should be entrusted to someone neither part of the family nor part of the business. Even the family-managed business that observes the first three rules tends to get into trouble—and often breaks up-over management successions. It is then that what the business needs and what members of the family want collide head on. Even when family companies thrive by following the other three rules, Drucker says that succession planning can prove to be their Achilles heel. This is because when power is being transferred, the needs of the business and those of the family stand a good chance of colliding.

But it is usually much too late to bring in the outsider when the succession problem becomes acute. Members of the family have taken positions and have committed themselves to this or that candidate. Moreover, succession planning needs to be integrated with financial tax planning. Family-managed businesses, therefore, should try to find the right outside arbitrator long before the decision itself has to be made. Sixth- or seventh-generation family businesses like Levi Strauss and the Rothschild banks are quite rare. The biggest family-managed business today, Italy's Fiat, is run by the third-generation of Agnellis, now in their 60s and 70s. Few people in the company, it is believed, expect it to be family managed 20 years hence.

Typical are the two brothers who built a successful manufacturing business, working together for 25 years. Now reaching retirement age, each pushes his son to head the company. The brothers become adversaries and eventually decide to sell out. Or take the case of the widow of one of the founders of a company. To save her daughter's marriage, she pushes her moderately endowed son-in-law as the next CEO and successor to her aging brother-in-law. Anyone who has work with family-managed companies could add to this list.

Unfortunately, the family-managed business that survives the founder—let alone one that still prospers under the third generation of family management—is still the exception. Far too few of these businesses accept the one basic precept that underlies all four rules outlined here: Both the business and the family will survive and do well only if the family serves the business. Neither will do well if the business is run to serve the family.

Rule III: Future Outlook

For any number of reasons, troubled businesses have tended to have little real concern about the future and the necessity of preparing for the business changes that are inevitable.

There needs to be a core value adopted that fundamentally says that the family believes that the future will be different and that the family must consistently make efforts to plan for and manage change pro-actively. The failure to do so has led to the demise of many family-owned business that had been very successful at one time.

Many other core values can also often have a critical impact on the performance of a family business. In particular, these values tend to involve decision-making processes, internal communications, methods of conflict resolution, methods of compensation, and the formality of the business's operating procedures. Depending on the circumstances, if any of these core values is sufficiently dysfunctional, they can have a substantial impact on performance and long-term viability.

Rule IV: Accountability

The simple act of establishing performance criteria and periodically evaluating performance relative to those criteria is a relatively simple task. At the same time, it is one of the most difficult tasks the family owned business faces. Even more difficult is the issue of dealing with poor performers. Almost every under-performing family business has little or no true accountability. In today's highly challenging environment, however, it is virtually impossible to compete effectively over an extended period of time without it.

Many family-owned businesses tend to be chronic spenders on unnecessary items. As a result, these businesses tend to be chronically cash poor. Sometimes, this core value is the result of greed. Often, however, it is the result of an insufficient understanding of the need for and benefit of retaining cash within the business.

Regardless of the reason, these companies generally do not have the funds needed to operate effectively or invest in the future. Clearly, this tends to result in chronic under-performance. Further, these companies are highly vulnerable to business downturns and other types of setbacks. Many, if not most, eventually fail.

Rule V: Addressing the Issue

Every family-owned business wishing to improve its performance can take a structured approach to addressing the issue through a careful examination of its core values. As a first step, each member of the family should independently evaluate the business's core values and determine for themselves if they believe each core value is functional or not. This evaluation should consider all the values addressed here as well as any other that appears to be meaningful.

More specifically, at a minimum, each member of the family should evaluate the business's core values concerning training, future, accountability, finances, decision-making processes, internal communications, methods of conflict resolution, methods of compensation, and formality of the operating procedures.

For example, each member of the family should develop his or her own evaluation about the sufficiency of accountability within the business. Further, to the extent that any member believes that the business would benefit from greater accountability, they should put down recommendations on how accountability could be improved.

Once each member of the family has completed their own evaluation of the family business's core values, a series of meetings should be held to discuss each member's thoughts and recommendations. Eventually, action plans can be developed to improve the areas, that the family identifies as requiring attention. These action plans should be specific and include time lines for completion. Lastly, the family needs to commit itself to aggressively following through on these action plans.

For some family-owned business, their core values can be significantly dysfunctional, making it impossible for the family to systematically consider these issues. In such cases, the families will require outside assistance by competent professionals in order to develop and implement a truly effective action plan. In such cases, the work required can be rigorous and even painful. At the same time, the benefits in those instances can be most significant, sometimes the difference between viability and ultimate failure.

On the surface, addressing the performance of a family-owned business through the systematic consideration of the family's core business values might appear simplistic. In many respects this is, in fact, true. Sadly, however, that is the irony of the chronically under-performing family businesses. Many, if not most, of the problems are not terribly difficult to identify or even rectify. At the same, some family businesses just never quite solve their problems. In the end, a simple structured approach to core values can make a significant contribution. A few of the tough issues family companies must decide upon are given below.

- What future goal does the family have?
- What are the plans of the family's younger generation?
- Which members of the family wish to remain with the business?
- Which members of the family possess the most aptitude to lead the company?
- What should happen if more than one member of the family desires to lead the company?
- How should younger members who do not necessarily wish to run the company but seek some role in it be accommodated?
- How can members of the family who wish to have no role in the business be accommodated?
- What procedures can be set up to groom the company's future leaders?
- What would be the most opportune times to make a change in leadership?
- How can the company's current leader(s) best prepare themselves and the business for an eventual smooth transition of power?
- Are the financial implications of a power changeover fully understood by all involved?

Rule VI: Creating Shared Vision

Ernesto Poza, in his book on Smart Growth defined a vision for an organisation thus: "... a vision is a clear, concise statement of what we want at some point in the future ... it gives form and body to people's most cherished values and beliefs. Visions combine strategic objectives and ways of doing business that constitute the essence or 'heart' of the organisation. Visions highlight important results, not the processes or means of achieving them."

Creating the statement of a shared vision is an exercise in thorough, open communication, exploration of assumptions, research, and co-creation. The process may take a series of meetings in which members of the family have in-depth dialogues about the future, their goals and dreams, the realities and assumptions about the business environment, and come up with a clear statement of the future they are committed to work towards.

The following are steps which can be taken in order to create a shared vision.

1. Identify individual dreams and goals for the future. It is important that each member of the family identifies and shares that which is most important to them in a picture of the future of their family business. For some people, they have not felt empowered or experienced the need to articulate a personal vision. An exercise to facilitate this process is what one can call a "Letter to One's Self". The letter starts out with the following paragraph: "It has been six years since our family retreat. A lot has happened in my life, the family, and the business. I am very pleased with what has occurred. Here is what happened and what I did to help it all come to pass." Each individual then adds the detail to his/her letter, which describes a desired view of the future.
2. Collect themes. As each member of the family reads his/her letter, one person collects the main themes on a flip chart. The themes are then summarised from the individual letters and major points for a shared vision are thus identified.
3. These points are then used to draft a vision statement. As it is difficult to write as a committee, often the family asks one or two people to "word smith" the statement, give it to everyone, ask them to review it, and suggest edits. This draft is then reviewed by the group and typically edited again.
4. Finally, the group must give this the ultimate test. Ask the question: "Is this vision one that encompasses my dreams and hopes for the future and does it feel like something I want to help achieve?" If it passes the test, then develop a strategic plan to achieve the vision. Consider what strategies are needed to accomplish the vision; who will be accountable for what aspects of the plan; what are the ramifications for careers, education, and teamwork?

SNAPSHOT

How to save the family business?

- Formulate policy framework and rules
- Families must serve the business
- There should be future outlook
- Family members should be accountable
- Issues should be addressed
- Create shared vision

Revision

Vision statements are drafted, reviewed, used as a basis of a plan of action for the family and business, and then revised. As the world, the business and the family evolve, new circumstances arise which may alter the desired future. Subsequent generations must have their dreams incorporated into the vision as well. Otherwise, their interest in the future of the family assets will decrease. If the vision statement is maintained as a living document that is a continual focus for all stakeholders involved in the family or family business, the interests of the family have greater probability of staying aligned and harmony maintained.

DISCUSSION FORUM

- Identify the requirements needed to save a family business.

SEASONAL NATURE OF THE BUSINESS

In most agricultural businesses or others, subject to peaks and valleys in revenue and expenses during the year, income is not evenly distributed over twelve months. The balance sheet will, therefore, look significantly different at the end of a peak income period than it might after a quarter of cash drains from ongoing operating expenses.

Here is how the "when" of the business valuation can be especially important in a seasonal business. The value of the equity in any business is the sum of the present value of all economic benefits that can be derived from the assets less liability. The measurement of this value involves applying various multiples to cash flow, revenue or to net worth, each as of a specific point in time. It is possible for the inexperienced valuer or the uninformed user of a business valuation to confuse a positive or negative capital position with financial stability and staying power.

Seasonal businesses as well as those that regularly borrow to fund working capital often end their fiscal year with negative working capital. This seemingly negative or positive surplus from the normal or average level over a full fiscal year does need to be added to the operating business value just as we might add other surplus property. This is important to realise because if gifting or other transfers to the next generation is contemplated, legitimate lower values do exist in these slow periods of the year or in multi-year cycles. If you sell your crop in multi-year cycles, this concept is even more important. If you just sold all of your five-year stock, for example, and paid out the cash, you would have reduced the value of the company—and this would be reflected in a business valuation.

Re-stating the Operating Income of the Business The family, for its financial benefit, operates most family-owned businesses. Usually the family owns nearly all the stock so they have the right to operate the business as they see fit within the law. The business valuation challenge then in estimating the value of such an enterprise is to restate the operating income and expenses to reflect what services are needed to operate the business and what those services are worth in the marketplace.

This challenge cuts both ways. If the head of the family does two or three jobs for the business but draws only one salary, operating earnings need to be restated to reflect what the buyer will have to pay to have all these functions performed. If another member's salary, which has also been charged to operating expense, is excessive compared to what will have to be paid for that service, the operating income could be adjusted upwards during the business valuation to the extent that expense will not be needed. In some cases, the entire expense can be removed from future consideration since there is nothing of value provided! The adjustment must also consider the risk to the business of a persons possible absence due to illness or death.

Surplus or Non-operating Assets

You may have noticed, we used the term operating income in the previous paragraph. Often businesses accumulate assets not required for the production of income. These can be excess land, a farm house in Ooty, corporate jet and so on. A business valuation will add such surplus assets to the value of the operating business.

Partial Interests and Fractional Interests

Minority shares versus majority, controlling shares, blocks of voting shares, family disagreements, and active versus passive stockowners—all of these issues impact the business valuation prepared for any specific purpose. Such partial interests are often confused with fractional interests in real estate when discussing discounts for less than 100 per cent ownership positions.

- A **partial interest** is a unit or share, a percentage, and it usually refers to partnership or corporate stock ownership interests.
- A **fractional interest** is used in conjunction with direct ownership of some fraction of a piece of real estate.

Here are four key points a business valuation must consider if the ownership of the business involves partial or fractional interests.

- A partial interest in anything—particularly in limited or general real estate partnerships, joint ventures, and so on —is not worth its proportionate share of a whole entity.
- The degree of value loss from that comparative proportionate share—the partial interest discount—can be surprisingly large: from as little as a 25 per cent to as much as 75 per cent (maybe even more)!
- Yet these same facts—to sell a partial interest—can be used to advantage by creating partial interests to transfer wealth.
- Business valuation discounts must be properly documented to be defensible should they be challenged in an IRS examination.

Consider the more important features of partnership interests that influence business valuation.

- Regularity of dividend payment

- Relative position in the line of claim to what is left in the event of a property or business failure
- Past history of the property show total capitalisation is sliced into various pieces
- Strength, experience, and extent of their own capital involved of the general partner and/or management team in control

These factors, along with many others, need to be considered in a business valuation when developing support for a partial interest discount. Sadly, we see many situations in which clients believe that they have adequate support with some "articles on the subject in my files if we are ever challenged".

Environmental Problems—Your Worst Nightmare

Over the past ten years, environmental risk and liability issues have emerged to become one of the most value-destructive factors facing family owned businesses, and are therefore major factors in business valuation. The potential costs of correcting possible environmental problems—most often hidden and certainly not advertised—can no loner be disclaimed away in the back of business valuation reports. What kind of businesses and properties might have environmental risks? Anything that could, in any possible way, create ground, air, or water pollution, either directly or indirectly.

The insurance companies in turn try to pass liability and costs back to their customers through increased premiums, limited or denied coverage, more demanding and stringent conditions on operations, and shifting claims back to the client by denying responsibility. All of these affect value, either by increasing costs, increasing risks, or direct wiping out of assets to pay damages. It is very satisfying to see the results of family efforts at creating value. But, it is most alarming to see and hear the somewhat casual attitude many take towards the potentially value-devastating effects of environmentally unaware management. Environmental liability issues can quite literally devastate the family's equity in a matter of months—equity that it took generations to build. Of course, a business valuation must consider these potentially devastating effects.

Make it your opportunity to rethink how you can profit from cutting waste, lowering production costs, developing better relations with neighbours, and avoiding costly litigation and fines.

Contingency Plan—for an Uncertain Future

A contingency plan uses strategies required to cover the death or incapacitation of key family managers.

A contingency plan addresses the "downside" risk encountered in succession planning. Even if you are following a good planning process—and certainly if you are not yet following a good plan—disaster can strike suddenly.

When asked about their contingency plans, many family business owners say that they have purchased life insurance that comes into play when they die. Thanks to medical advances, strokes and heart attacks do not kill nearly as many victims as in the past. However, they can still incapacitate a key family member for long periods of time—sometimes even permanently. When this happens, life insurance does not come into play.

SUMMARY

- **A family owned business** is a for-profit enterprise in which a controlling number of voting shares or other forms of ownership, typically but not necessarily a majority of the shares, are owned by the members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The various types of family businesses are family-owned business, family-owned and-managed business, family-owned and-led business.
- Family businesses from every trade imaginable have been around for centuries—from shoemakers to confectioners to farmers. But did you know that the world's oldest documented family business is a construction company? According to research conducted by William T. O'Hara, President Emeritus of Bryant College in Rhode Island and author of Centuries of Success: Lessons from the World's Most Enduring Family Businesses, as reported in Family Business magazine. O'Hara's study revealed that construction company Kongo Gumi, based in Osaka, Japan, was founded in the year 578.
- The "3-circle" model developed by Tagiuri and Davis at Harvard (J. Davis 1982; and J. Davis, 1982,1989) incorporates family, business, and ownership systems into the definition of the family business system. Each of these systems interacts with the others and influences their membership, goal, and dynamics. The 3-circle model has become the established systems model of the family-business field.
- Family businesses need to recognise the biological time clock ticking among their members and realise that their organisations, as currently constituted, display low tolerance for change and stress. They must develop strategies that create management structures which can absorb rapid expansion over a relatively short time after initial years of gradual growth. The other imperative is to be able to settle spheres of control, sources of finance and possibly estate issues between siblings and cousins of that generation in order to give them a fair shot and perhaps even prolong such a golden period of success.
- It is extremely important to **first develop the family succession plan** and then the business plan. Otherwise the business owner will spend a lot of time and money developing a succession plan that will almost always fail. Sometimes the failure is recognised only after the death of the parents when the "plan" is sprung on the family during the reading of the will—and the legacy the parents were trying to create for their children and grandchildren is destroyed because of greed, misunderstandings, and lack of involvement in the family succession planning process.
- Family feuds—whether they start in the family and spill into the business or start in the business and affect the family—are a major factor in family businesses having such a poor survival rate. One of the misconceptions many people have is that a successful family business equates to having a common "view" amongst family members of how things are done and when. Family businesses can never realistically expect to be completely rid of problems created by sibling rivalries. The best that family businesses can hope to accomplish is to minimise the conflicts.

- The management development plan is generated by the top management in the business for the purpose of predicting key executive staffing needs and planning the career paths and management development programmes of key family and non-family managers. In most cases, the investment of time in this work is not great, but the payoff is. Management guru Peter F. Drucker devised four rules that he believes family businesses need to follow to ensure their survival.

KEY WORDS

- Family owned business
- Family owned and managed business
- Family owned and led business
- Structural definition, Process definition
- Business system
- Family system
- Ownership system
- Governance
- Periodic assembly
- Family council
- Family Constitution
- Shareholders
- Vision
- Mission
- Shared vision
- Revision
- Succession plan
- Contingency plan
- Family foundation
- Family feuds
- Nepotism
- Management development plan
- Sibling rivalry
- Arbitrary approach
- Family reunion games
- Family bonding
- Family values
- Family tradition
- Heritage
- Family religion
- Family secrets
- Family rules
- Family fun
- Family Lore game
- 3-circle model.

CASE STUDY

Case 6.1 The Niece Who's Knocking at the Door

Reliance Engineering is a manufacturing firm with about 160 employees. The founder of the business, Manoj, is not active now, and his son, Amit, is the person responsible for the business now. One of Amit's sisters, Ashwini, runs a small branch distribution office. Her husband, Arun works out of that office as a salesperson. There are two other people in the office.

Amit is reorganising the business and planning to eliminate the two other office functions by moving them to the home office. Ashwini wants to hire her 21-year-old daughter, who has a degree, to fill the soon-to-be-created position of office assistant. From everything Amit understands, this is not the right thing to do. However, Ashwini can not understand why. Amit has two sons about to leave college. His other sister, Veena, has one son, now out of college, and three daughters still in school.

Amit is not yet sure who else might want to join the business, but one of his sons, who will graduate with an industrial engineering degree next year, has expressed some interest.

Case Questions

1. Is there a list of dos and don'ts regarding employment of family members in a family business?
2. Amit has not got down to documenting a family employment policy yet. Help him frame one.

Case 6.2 Succession in Family Business

Vishwanath is the founder of Jai Hind Engineering, which is a private limited hundred per cent export-oriented company, employing 200 workers. He has been in this business for the past 15 years. He has two children, a son and a daughter. His son, Virendra, is a mechanical engineer. He joined the business five years back and spends most of his time in the production division. His daughter, Vidya, is a law graduate. She joined the business three years back and takes care of office administration.

Vidya got married to Milind five years back. Milind is an industrial production engineer and also a postgraduate in business administration from the Bajaj Institute of Management. He was working for Mahindra at the time of marriage.

Three years back Vishwanath had a mild heart attack. He requested his son-in-law Milind to resign his job and join the family business. From the last two years Milind has been running the business very well and with little assistance from his father-in-law. Even though Milind is shouldering all the responsibilities and taking major decisions, he has been given nothing in writing that states that he will take most decisions.

Vishwanath is slowly planning for his retirement and wants his son to be the president of the company when he retires completely from the business. He also insists that Milind involve Virendra in the decision-making process. However, Virendra does not have good understanding of business practices nor is he capable of making financial and marketing decisions. He spends most of his time working in the production division and avoiding management responsibilities. In spite of his limitations, Virendra wants to be the president of the company and take over from his father.

At present, Milind is paid a lesser salary than Virendra despite putting in more hours at work and his contributing more to the family business. Both Vishwanath and Virendra are happy with Milind's performance but feel the title should go to Virendra. Vishwanath plans to make Vidya Co-President with equal share in ownership.

Both Milind and Vidya are quite uptight over the lack of acknowledgement for their true roles. Milind is extremely Bitter about the situation and may quit some day. He says he will not work for and be answerable to Virendra.

Case Questions

1. Who should have the title of president and why?
2. Should Vishwanath draw up a succession plan since he is 60 and in bad health?
3. Should he make Virendra, Vidya and Milind aware of the contents of the succession plan?

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Article in Business Week on family business. Read it online.

7

Sickness in Small Business Enterprises

The reasons for industrial sickness may differ from industry to industry and within the industry from unit to unit.

"So many fail because they don't get started; they don't go. They don't overcome inertia."

—W. Clement Stone

Learning Objectives

- To define the sick SSI unit and present the status of sickness in small business enterprises in India
- To identify the causes of sickness in small business enterprises
- To discuss the remedies to avoid sickness
- To present a case study of sickness in a SSI of Sangli district
- To present five examples of sick SSI units in India and causes of sickness and rehabilitation packages

DEFINITION OF SICKNESS AND STATUS OF SICKNESS OF SSIs IN INDIA

The definition of sickness in SSI sector has been undergoing changes. The Reserve Bank of India (RBI) has been instrumental in appointing committees from time to time to look into the issue of the sickness affecting the sector.

The latest definition of sickness given by the Working Group (Kohli Committee) set up by the RBI is given below.

A small-scale industrial unit is considered sick

- if any of the borrowal accounts of the unit remains substandard for more than six months, that is, principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course; or
- when there is an erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year; and
- when the unit has been in commercial production for at least two years.

SNAPSHOT

A small-scale industrial unit is considered sick

- If any of the borrowal accounts of the unit remains substandard for more than six months, that is, principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course;
- When there is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year, and
- When the unit has been in commercial production for at least two years.

Present Status of Sickness of SSIs in India

In the emerging liberalised and globalised market, there is cut-throat competition. SSIs have to compete in the domestic market with multinational companies (MNCs) and large-scale corporation (LSCs) on all fronts viz. cost of production, quality, technology, marketing network, price wars and so on. Besides, liberalisation in imports of capital goods and related components have exerted further pressure on the existing market of ancillaries and SSIs. LSCs enjoy economic of production, thus, for them it is very comfortable to sustain the price war.

At present, as India moves from a protected economy to a market-oriented economy, some amount of transitional problem is unavoidable. Since

Visit www.smallindustryindia.com to learn more about sickness in SSI.

most Indian SSIs have not yet gained the strength to withstand the changes that have taken place, in the economy, they are losing their economic strength and giving out signals of possible large-scale sickness.

Magnitude of Sickness in the SSI Sector in Country

The incidence of sickness in the small-scale industries sector has declined from the year 1999 to 2003, as per the data compiled by the RBI from scheduled commercial banks. The number of sick SSI units in the country has come down from 3,06,221 as at the end of March 1999 to 1,67,980 as at the end of March 2003 (provisional). The total sick SSI units, potentially viable units, and units under nursing, with the amounts outstanding against them for five years ending March 1999 to 2003 were as given in Table 7.1 below.

Table 7.1 Sick SSI Units

As at end of March	*Total Sick Units*		*Potentially Viable*		*Viable Units under Nursing*	
	No.	*Amount O/s (Rs crore)*	*No.*	*Amount O/s (Rs crore)*	*No.*	*Amount O/s (Rs crore)*
1999	3,06,221	4,313.48	18,692	376.96	12,759	194.91
2000	3,04,235	4,608.43	14,373	369.45	663	137.69
2001	2,49,630	4,505.54	13,076	399.17	753	120.29
2002	1,77,336	4,818.95	4,493	416.41	621	88.98
2003 (P)	1,67,980	5,706.35	3,626	624.71	993	382.32

Amount in Rs Crore. Source: RBI
(P) - Provisional
Note: These units include village and cottage industries

HIGHLIGHTS OF THIRD ALL-INDIA CENSUS ON SICKNESS IN SSI

The highlights of the third All-India Census on Sickness in SSI are given below.

- Sickness was identified through the latest definition of RBI given by the Kohli Committee and incipient sickness was identified in terms of continuous decline in gross output.
- Sickness in the Total SSI sector was of the order of 1 per cent, whereas in the registered and unregistered SSI sectors it was 3.38 per cent and 0.64 per cent respectively.
- The maximum number of sick units was located in West Bengal, Kerala, Maharashtra, Karnataka, and Andhra Pradesh. About 59.53 per cent of the sick units were located in these five States.
- Out of the units having loan outstanding with institutional sources like banks and financial institutions, sickness was about 19.6 per cent in the registered

SSI sector and 16.61 per cent in the case of unregistered SSI sector. In the Total SSI sector, this percentage was 17.8.

- Incipient sickness identified in terms of continuous decline in gross output was 11.5 per cent in the registered SSI sector and 6.48 per cent in the unregistered SSI sector. In the Total SSI sector, this percentage was 7.4.
- Combining the three yardsticks used to measure sickness, viz. (a) delay in repayment of loan over one year, (b) decline in net worth by 50 per cent, and (c) decline in output in last three years, about 13.98 per cent of the units in the registered SSI sector were identified to be either sick or incipient sick, while this percentage was only 6.89 in the case of unregistered units. In the Total SSI sector, this percentage was 7.82.
- "Lack of demand' and "Shortage of working capital" were the main reasons for sickness/incipient sickness in both the registered and unregistered SSI sectors.

Box 7.1 Summary of Third All-India Census on Sickness in SSI

No. of sick/incipient sick units (with erosion of net worth by more than 50 per cent or delay in repayment of institutional loan by more than 12 months or decline in gross output over three consecutive years)	1,92,328 (13.98%)	6,30,568 (6.89%)	8,22,896 (7.82%)
Reasons for sickness/incipient sickness			
Lack of demand	1,11,508 (58%)	4,35,121 (69%)	5,46,629 (66%)
Shortage of working capital	1,09,844 (57%)	2,69,648 (43%)	3,79,492 (46%)
Non-availability of raw material	23,493 (12%)	76,029 (12%)	99,522 (12%)
Power shortage	33,099 (17%)	77,345 (12%)	1,10,444 (13%)
Labour problems	12,182 (6%)	26,282 (4%)	38,464 (5%)
Marketing problems	70,202 (37%)	2,24,002 (36%)	2,94,204 (36%)
Equipment problems	16,995 (9%)	76,038 (12%)	93,033 (11%)
Management problems	9,124 (5%)	21,088 (3%)	30,212 (4%)

DISCUSSION FORUM

- Define a sick SSI unit.
- Explain the present status of sick SSIs unit in India.

CRITERIA TO IDENTIFY SICKNESS/INCIPIENT SICKNESS

The necessary information on sickness and incipient sickness among the units in the sector was collected during the Third Census. In order to measure incipient sickness, the continuous decline in gross output for three consecutive years was identified as a suitable indicator, whereas for measuring sickness, the latest definition given by the Kohli Committee was adopted. Thus, the following criteria were adapted to identify sick/ incipient sick units in the Third Census.

- Continuous decline in gross output compared to the previous two financial years
- Delay by more than 12 months in repayment of loan taken from institutional sources
- Erosion in the net worth to the extent of 50 per cent of the net worth during the previous accounting year

Magnitude of Sickness/Incipient Sickness

Sickness identified in the registered SSI sector in terms of delay in repayment of loan or erosion in the net worth was of the order of 2.5 per cent, whereas in the unregistered SSI sector, it was 0.78 per cent. Out of the units having loan outstanding with institutional sources like banks and financial institutions, about 14.08 per cent in the registered SSI sector were sick as against 13.47 per cent in the case of unregistered SSI sector.

Incipient sickness identified in terms of continuous decline in gross output was of the order of 13.01 per cent in the registered SSI sector and 7.76 per cent in the unregistered SSI sector.

Combining the three yardsticks used to measure sickness, viz. (a) delay in repayment of institutional loan over one year, (b) decline in net worth by 50 per cent, and (c) decline in output during the previous three years, about 14.47 per cent of the units in the registered SSI sector were identified to be either sick or incipient sick, while this percentage was only 8.25 per cent in the case of unregistered units.

CAUSES FOR SICKNESS/INCIPIENT SICKNESS IN SSI

The sickness is due to two factors—endogenous and exogenous.

Exogenous Factors

The exogenous factors causing sickness relate to government policies pertaining to production, distribution and prices; change in the investment pattern following new

SNAPSHOT

Criteria to identify sickness

- Continuous decline in gross output compared to the previous two financial years
- Delay by more than 12 months in repayment of loan taken from institutional sources
- Erosion in the net worth to the extent of 50 per cent of the net worth during the previous accounting year

Reasons for sickness

- Exogenous factors.
- Endogenous factors.

priorities in the plans; shortage of power, transport, raw materials; deteriorating industrial relations. Such factors are likely to affect all units in an industry. These factors deserve corrective action at the territory level by both the State and Central government.

The external factors causing sickness are given below.

- Change in preference of consumers
- Cheaper variety of products available in the market
- Shortage in the supply of vital inputs
- Rise in the cost of raw materials
- Radical changes in government policies
- General recession in industries
- Foreign exchange fluctuations leading to adverse effect on the price of machinery and raw materials, which are imported.

Endogenous Factors

The endogenous factors causing sickness are generally mismanagement, diversion of funds, wrong dividend policy, excessive overheads, lack of provision for depreciation of machinery and other equipment, over-estimation of demand, and so on. The most important of all causes of sickness is the incompetence of the management.

Endogenous factors can be categorised into two.

(a) Anatomical Causes

- Underestimation of the project cost
- The existing manufacturing process has become out dated or obsolete
- Selection of wrong project site, resulting in increased transportation cost
- Undue investment in fixed assets
- Defective working of plant and machinery affecting quality of production

(b) Operational Causes

- Defective financial planning and financial management
- No research and development planning
- Low productivity
- Incapable and incompetent management
- Improper manpower planning
- Difference among promoters and interference in the functioning of the company
- Management that is inclined to making personal gains at the cost of the company

Finance Management

Among the operational causes listed above finance or, rather, the lack of it, has been the prime bugbear of the SSI sector. There are two aspects of this shortage. One is capital and the other is delayed payment. In theory, SSIs should be the beneficiary of the stipulation that 40 per cent of the credit by public sector banks is earmarked for the priority sector (agriculture, SSI, housing, and services). In practice, according to CII, the SSIs get a low share of this as there is no sub-target for them. Incidentally, it is wrongly believed that the SSI sector is the main culprit when it comes to non-performing assets (CNPAs) of banks and financial institutions. Actually, although SSIs form 99 per cent of the sick/weak units, they account for only 22 per cent of the total outstanding amount of Rs 19, 464 crore.

Other major reasons for sickness are marketing problems, faulty management practices and product planning, scarce raw materials, labour trouble, absence of a defined regulated market, lack of credibility in terms of quality and standards, incompatibility of product range with market need, non-availability of adequate and timely credit facilities, pricing and taxation polices of the government, poor competitive edge in the market, and so on.

Often the management in an SSI unit is headed by one person who performs a number of functions usually with no formal training. The absence of management expertise, vision, future, outlook, adaptability to changing environment, lack of proper understanding of current trends and future prospects of the market and so on, among SSI owners leads to sickness in many instances. The average SSI lacks both the time and the capital for R&D despite the R&D function being basic to a company's growth and survival.

As started earlier, many Indian SSIs are facing cut-throat competition from LSCs and MNCs. The SSIs find it difficult to compete with them due to high production costs. As a result, SSIs have been losing their market presence substantially over the years, which in turn takes away their profitability. As a result, many SSIs are running below their capacity-utilisation limit. Poor infrastructure development (especially power shortage), utilisation of primitive technology in their enterprises, are also contributing factors for sickness. In India most SSIs are facing a liquidity problem due to inefficient finance management especially in receivables recovery, maintenance of inventory, working capital management, and so on. SSIs fail to tune themselves to the market need due to low degree of accession to the market need which in turn was due to low degree of their accessibility to market information. The majority of SSIs are facing shortage of fund for modernising their equipment and expanding business.

Visit www.startupjournal.com to know more about symptoms and reasons of sickness in the SSI sector.

Poor working conditions and inadequate efficient and skilled manpower are some of the causes for sickness. The other causes are diversion of funds for unproductive activities, dissension among partners, and overdependence on purchase by the government.

DISCUSSION FORUM

- What are the symptoms to identify the sickness in the SSI sector?
- Explain the causes of sickness in the SSI sector.

SYMPTOMS OF SICKNESS

There are various symptoms of sickness. Therefore, it is important for the industries to become aware of such symptoms sooner than later. These symptoms may be found at various stages of a project implementation.

(a) At the implementation stage

- When the management appears to deny institutional discipline by noncompliance with certain vital conditions
- Lack of commitment on the management's part for supervision on implementation of the project
- Undue delay in project implementation
- Lack of coordination with various agencies

(b) When the project has started operations

- Increase in receivables and payables
- Increase in the rejection rate of the finished product
- Increase in the level of inventories
- Lack of understanding between promoters
- Irregularity in the payment of institutional loans
- Industrial relation problems

(c) Position of cash credit account

- Find out cash credit account position from the bankers who have extended the facilities of working capital
- Cash credit or overdraft account has been overdrawn or frequently drawn
- Cheques drawn on such account have been returned unpaid
- Bills drawn by the company remain unpaid for long periods
- Pledged stocks are overvalued to get additional funds from the government
- Stocks are uninsured

CURES FOR SSIs' SICKNESS

For an emerging economy like India, SSIs are the backbone for achieving sustained economic growth. While, the growing sickness in SSIs is alarming, timely action needs to be taken to protect the SSIs in the interest of the economy in the era of transition. In view of the changing economic scenario, the immediate need is to focus on the problems of SSIs to enable them to face the emerging challenges.

SNAPSHOT

- **Rehabilitation:** For tackling the problems of industrial sickness in the SSI sector and rehabilitation of sick units, the Reserve Bank of India issued guidelines to commercial banks in February 1987 (modified in June 1989 and April 1993) containing, inter-alia, definition of sick SSI units, viability norms, incipient sickness, as also relief/concessions from banks/financial institutions for implementation of packages in the case of potentially viable sick SSI units.
- **Viability of a Sick unit**
  A unit may be regarded as potentially viable, if after implementing a relief package spread over a period not exceeding five years from the commencement of the package from a financial institution, government and other agencies, it would be in a position to continue to service its repayment obligations as agreed upon.

The following measures can be taken to improve the efficiency of SSIs and to prevent sickness in small-scale units.

- In a market-oriented economy, SSIs must put greater emphasis on pragmatic planning of their functions and discover new markets with innovative product or services.
- Success for an SSI depends upon accessibility to market information and using the same effectively in business operations. The Internet has revolutionised the world and SSIs must become net savvy especially in marketing their products.
- More thrust should be given to R&D for product innovation, quality improvement, cost reduction, and so on.
- More attention must also be focused on promoting professionalism in management and providing frequent training to update entrepreneurial skills and so on.
- The infrastructure facility should be improved by the State to enable a smooth functioning of the SSI activities.
- The modernisation of plant is of utmost importance at present among the SSIs to strengthen their competitive edge and for which the government should assist by providing adequate finance at liberal terms.
- The SSIs must give attention to adequate marketing arrangements with the prospective buyer to get regular orders and also undertake continuous market research.
- The products of SSIs are widely advertised in the media for adequate publicity and the for better reach.
- SSIs will have to make special efforts for collection of their dues for their growth. They may have to utilise the services of factoring for the purpose. It is imperative that SSIs familiarise themselves with inventory control techniques to reduce the cost of working capital.

Rehabilitation

Sickness in the SSI sector is attributed to a number of factors like inefficiency in management, overambitious projects, dispute among partners, and non-availability of credit, which is one of the major factors responsible for rendering SSI units sick.

Government of India has taken various measures from time to time to detect sickness at the incipient stage and rehabilitation of sick units in the small-scale sector.

For tackling the problems of industrial sickness in the SSI sector and rehabilitation of sick units, the Reserve Bank of India issued guidelines to commercial banks in February 1987 (modified in June 1989 and April 1993) containing, inter-alia, definition of sick SSI units, viability norms, incipient sickness, as also relief/concessions from banks/financial institutions for implementation of packages in the case of potentially viable sick SSI units.

The Nayak Committee set up by the Reserve Bank of India in 1991 to deal with aspects of adequacy and timeliness of credit to SSIs, went into the issue of sickness in detail. The Reserve Bank of India took action on its recommendations which related to a modified definition of sick SSI units, reduced rate of interest for rehabilitation, prompt viability studies/nursing programmes of identified sick units, head office to deal with sick industrial units and provision of expert staff, including technical personnel to look into technical aspects. The RBI also advises its officers from time to time to activate State-level Inter Institutional Committee (SLIIC).

The other main decisions taken by RBI to tackle the problem of sickness in the SSI sector are given below:

(i) To set up a sub-committee of SLIIC in all the States/UTs to invite SSI entrepreneurs, bankers, and concerned government departments to discuss and arrive at the rehabilitation package; meeting of the sub-committee to be held every two months and that of SLIIC every quarter; to set up district level committee of SLIIC in districts having SSI concentration, have been conveyed to all State governments for implementation.

(ii) The RBI set up a one-man committee under the chairmanship of Mr. S.L. Kapur, former Secretary (SSI & ARI), to look into various problems germane to credit flow to the SSI sector and suggest appropriate measures for their redressel. The committee in its report submitted to the RBI, inter-alia, recommended the following so that sick SSIs are rehabilitated quickly—if any one of the borrowal accounts of the unit remains sub-standard for six months, that is, principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding one.

(iii) To encourage banks to take up rehabilitation of potentially viable sick SSIs, some relaxation in income recognition and asset classification norms should be provided. A period of one year both for the additional exposure as well as old outstanding advances to such SSI units should be permitted and these facilities treated as standard advanced for a period of one year after which the classification should be changed depending upon the record of recovery.

Viability of a Sick Unit

A unit may be regarded as potentially viable, if after implementing a relief package spread over a period not exceeding five years from the commencement of the package from a financial institution, government and other agencies, it would be in a position to continue to service its repayment obligations as agreed upon. The period of repayment for restructured debts should not exceed seven years from the date of commencement of the package.

In case of tiny units and the decentralised sector, the period of relief and concessions and repayment period of restructured debts shall not exceed five years and seven years respectively. It will be for the banks and financial institutions to decide whether a sick unit is potentially viable for rehabilitation or not.

Working Group on Rehabilitation of Sick Units

Relief and concessions can be extended by banks/financial institutions to potentially viable, sick SSI units under rehabilitation given by the RBI (Kohli Committee). As per the recommendation of the Group of Ministers, RBI had set up a Working Group under the chairmanship of Mr. S.S. Kohli, the then Chairman of Indian Banks Association, to review the existing guidelines in regard to rehabilitation of sick SSI units and to recommend revision of guidelines, making them transparent and non-discretionary for the rehabilitation of currently sick and potentially viable SSI sick units.

The Working Group submitted its report in May 2001. All the major recommendations were accepted by the RBI, including a change in the definition of sick SSI units and the norms for deciding on the viability of sick units. The revised definition would enable banks to take action at an early stage for revival of the units. Based on the accepted recommendations of the Working Group, the RBI drew up the revised guidelines for rehabilitation of sick SSI units, which were circulated on January 16, 2002, to all scheduled commercial banks for implementation.

The viability and rehabilitation of a sick SSI unit would depend primarily on the unit's ability to continue to service its repayment obligations including the past restructured debts. It is, therefore, essential to ensure that ordinarily there is no write-off or scaling down of debt such as by reduction in rate of interest with retrospective effect except to the extent indicated in the guidelines. The guidelines on various parameters on relief and concessions are given below.

(i) Interest dues on cash credit and term loan

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on the funded interest and the repayment of such funded interest should be made within a period not exceeding three years from the date of commencement of implementation of the rehabilitation programme.

(ii) Unadjusted interest dues

Unadjusted interest dues such as interest charged between the date up to which rehabilitation package was prepared and the date from which the package was actually implemented, may also be funded on the same terms.

(iii) Term loans

The rate of interest on term loans may be reduced below the document rate where necessary, by not more than 3 per cent in the case of tiny/decentralised sector units and by not more than 2 per cent for other SSI units.

(iv) Working Capital Term Loan

After the unadjusted interest portion of the cash credit account is segregated as indicated in (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding five years. The rate of interest applicable may be 1.5 per cent to 3 per cent points below the prevailing fixed rate/minimum lending rate of the bank, wherever applicable, to all sick SSI units including tiny and decentralised units.

(v) Cash losses

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. The bank or the financial institution during the nursing programme may also finance such cash losses excluding interest, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at the rates prescribed by SIDBI under its scheme for rehabilitation assistance.

Future cash losses in this context will refer to losses from the time of implementation of the package up to the point of cash break-even as projected. Future cash losses as above should be worked out before interest (that is, after excluding interest) on working capital and so on, due to the banks and should be financed by the financial institutions if it is one of the financiers of the unit. In other words, the financial institutions should not be asked to provide for interest due to the banks in the computation of future cash losses and this should be taken care of by future cash accruals.

The interest due to the bank should be funded by it separately. Where, however, a commercial bank alone is the financier, the future cash losses including interest will be financed by it.

The interest on the funded amounts of cash losses/interest will be at the rates prescribed by the Small Industries Development Bank of India under its scheme for rehabilitation assistance.

(vi) Working capital

Interest on working capital may be charged at 1.5 per cent below the prevailing fixed/ minimum lending rate charged by the bank wherever applicable. Additional working capital limits may be extended at a rate not exceeding the minimum-lending rate chargeable by the bank.

(vii) Contingency loan assistance

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks/financial institutions may provide, where necessary, appropriate additional financial assistance up to 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

(viii) Funds for start-up expenses and margin for working capital

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses, while margin money assistance may either come from SIDBI under its Refinance Scheme for Rehabilitation or should be provided by the State government where it is operating a Margin Money Scheme. Interest on fresh rehabilitation term loan may be charged at a rate 1.5 per cent below the prevailing fixed/minimum lending rate chargeable by the bank wherever applicable or as prescribed by SIDBI/NABARD where refinance is obtained from it for the purpose.

All interest rate concessions would be subject to annual review depending on the performance of the units.

(ix) Promoter's contribution

As per the extant RBI guidelines, the promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 per cent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and at 20 per cent of such requirements for other units. In the case of units in the decentralised sector, promoter's contribution may not be insisted upon. A need has been felt for increasing the promoter's contribution towards rehabilitation from the present limits. It is, therefore, open to banks and financial institutions to stipulate a higher promoter's contribution where warranted. At least 50 per cent of the above promoter's contribution should be brought in immediately and the balance within six months. For arriving at promoter's contribution, the monetary value of the sacrifices from banks, financial institutions, and government may be taken into account, in addition to the long-term requirement of funds under the rehabilitation package.

Important changes brought out in the revised guidelines based on the recommendations of the Working Group on rehabilitation of sick SSI units vis-a-vis the existing guidelines are given in Box 7.2.

Good businesses ensure they have appropriate systems in place to manage staff absence. Unexpected absences affect productivity and profits and, if they become a regular occurrence, are likely to lower morale and motivation. However, you can improve absence rates and minimise the impact of absence by putting effective policies and procedures in place. These should be backed up by pleasant working conditions, active management, and good motivation.

Monitoring and investigating the causes of absence of workers can also help identify factors contributing to absence levels, for example, unsafe work practices. This guide line (given in Box 7.2) will help to

Kohli Committee report on rehabilitation of sick SSI unit published by RBI.

1. monitor and measure the effect of absence rates;
2. set up the right policies and procedures to control absence rates;
3. offering flexible working patterns, training and promotional opportunities, staff incentives and so on;
4. examine job design;
5. use temporary workers during busy periods; and
6. develop policies and procedures to tackle anti-social behaviour.

Box 7.2 New Guidelines vs Existing Guidelines for Rehabilitation of Sick SSI units

New Guidelines	Existing Guidelines
1. The definition of a sick SSI unit may be changed as (a) If any of the borrowal accounts of the unit remains substandard for more than six months, that is, principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course; or (b) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year; and (c) The unit has been in commercial production for at least two years. 2. In the case of tiny/decentralised sector units, the period of relief/concessions and repayment period of restructured debts have been revised, so as not to exceed five and seven years respectively as in the case of other SSI units. (i) While the other existing norms for grant of relief and concessions which can be extended by banks to potentially viable sick SSI units may continue, additional working capital limits may be extended at a rate not exceeding the PLR. (ii) The viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as "potentially viable"/"viable". While identifying and implementing the reha-	1. An SSI is considered "sick" when (i) any of its borrowal accounts has become "doubtful" advance, that is, the principal or interest in respect of its borrowal accounts has remained overdue for a period exceeding 2½ years, and (ii) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years. In the case of tiny/decentralised sector units, the period of relief/concessions and repayment period of restructured debts will be two years and three years respectively. In the existing guidelines there was no mention about providing additional working capital. As per the extant guidelines, the banks are expected to take, as far as possible, a decision on the viability or otherwise of a unit identified as sick, within a period of three months from the date of receipt of complete information on the relevant aspects from the management of the unit. Further, the finalisation of the nursing programme should be completed within a period of three months from the date of such decisions. As regards "holding operation", it is a new concept/facility, which was not there in the existing guidelines. Promoter's contribution towards rehabilitation may be fixed at a minimum of 5 per cent of the additional long term requirements under the rehabilitation package in the case of tiny sector units and 10 per cent of such requirements for other units. Banks have been advised to incorporate the "Right of Re-compense" clause in cases where the concessions/relief were beyond the parameters laid down by RBI.

bilitation package, banks/FIs may be asked to do "holding operation" for period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of the deposit of sale proceeds during the period of such "holding operation".

(iii) There is a need for increasing the promoter's contribution towards rehabilitation package from the present limits. It is open to the banks/financial institutions to stipulate a higher promoter's contribution, where warranted.

Further, in regard to concessions and relief made available to sick units, banks should incorporate the "Right of Re-compense" clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/ cash accruals.

DISCUSSION FORUM

- Discuss the rehabilitation of SSI sick units.
- What are the RBI guidelines for rehabilitation of a sick SSI unit?

CASE STUDY

SICKNESS IN SMALL-SCALE INDUSTRIES OF SANGLI DISTRICT

The sickness among the small-scale units began from 1991. The sickness has assumed serious proportions, which is reflected in the increasing number of sick industrial units, alarming increase in the number of funds, increasing unemployment, and continuous increase in the huge funds of financial institutions locked up in the sick units.

In-spite of corrective measures announced by the government in the past, the root of this economic situation goes much deeper into the economy. Industrial sickness not only tends to aggravate the problem of unemployment, but also renders the invested capital useless. Moreover, it creates an adverse industrial climate for the development of entrepreneurship in the SSI units. As Sangli district is growing industrially, in establishing and stabilizing the industries specially SSI. Availability of labour and credit is the main factor in pushing the progress and promotion of such industries. The upliftment of the economy of the Sangli district could be possible through the successful incorporation of small-scale units and the entire district can develop through the effective organization of such industries.

In spite of many facilities to SSI units, handicaps still exist and there is growing sickness in Sangli district. In 2000–2001, 367 had fallen sick, of which 60 units have been reported to be dead i.e. closed down. Remaining units have shown satisfactory performance by their own efforts.

The causes of the sickness are varied and diverse and very often more then one factor is responsible for the sickness in a particular unit. In Sangli district the main factors responsible for sickness are poor marketing, technical, financial and managerial functions. We have a case study of four SSI units in MIDC. Sangli-Miraj was set up with a layout of 790 plots. The MIDC has constructed 500 sheds of which 483 were given on rent; the remaining 17 sheds were sold to the entrepreneurs. Some of the entrepreneurs bought the the plots and constructed sheds on their own. Out of these units, 202 units, became sick, some of them within a period of 3 to 5 years and were forced to close down.

While SSI units are supposed to mainly depend on local sources of raw materials and cater to local-markets, all sample sick units depended heavily on outside raw materials and market a factor, which is invested with uncertainty and risk, besides additional costs on account of transport and marketing.

The units have suffered due to shortages of working capital, mismanagement, lack of market research, underutilization of capacity and competition.

CAUSES OF SICKNESS AND CLOSE DOWN OF SSIS

The causes of sickness and closing down of the small-scale units are as follows.

- Shortage of raw materials
- Lack of technical expertise
- Uneconomic capacity
- Underutilisation of capacity
- Insufficient demand
- Labour troubles
- Shortage of working capital
- Competition
- Dishonesty among partners
- Mismanagement
- Lack of quality control
- Lack of market research

SUGGESTIONS

- State's commitment to encourage SSI has often led to contradictory policies, while each five-year plan underlines the need to increase the production of consumption goods through the SSI sector. One unit was assisted to produce plastic bags only meant for use by the local tailoring shops. But they consume scarce material, the government agencies were not prudent to encourage such units.

- The entrepreneurial background of the owner is also to blame for industrial sickness. The owners of the sample units were simple traders or businessmen and were not well educated with specified skills.

The need of the hour, therefore, is to formulate concrete strategies for preventing the occurrence of industrial sickness and speedily rehabilitating the sick units.

Inadequate project appraisal and ineffective monitoring of its assisted unit have also been responsible for industrial sickness. MSFC has to improve its project appraisal methods. Project appraisal should be made carefully on the basis of technical, financial, economic, and market considerations.

MSFC, MIDC and DIC should closely watch the performance of their assisted units, understand their problems, and try to solve them with the help of government departments, commercial banks, commissioner of industries, and other agencies as soon as symptoms of sickness appear so that the incidence and magnitude of sickness can be reduced in future.

It is necessary to issue the various guidelines by RBI to various banks for timely support of viable sick unit.

The reasons for this state of affairs are given below.

(a) An Entrepreneur's Faults

1. *Unrealistic profit and working projection by entrepreneur*

Often, an entrepreneur is a technocrat with perfect knowledge of production processes but little knowledge of the economics of production and financial constraints in production. He also may not have clear idea about profitability of products, as the figures available to him about the product may appear to be profitable on large scale but may not show the same results when production level is reduced. This leads to unrealistic profit projections.

2. *Failure of entrepreneur to select proper product and customer mix*

The proper customer and product mix is important for the good running of an SSI. The product should be such that it is useful for a number of customers. Making special products for each kind of customer proves to be uneconomical. The customer should be encouraged to adopt standard products. The range of products be wide enough to accommodate all groups of customers.

3. *Labour*

An experienced and skilled operator can overcome the problems faced due to raw materials and machines.

4. *Poor quality control*

This has three facets. One, high costs and lack of standardisation, quality control equipment and their proper maintenance. Second, improper training of the quality control personnel. Third, poor house keeping products on the shop floor were as the half trained people may be lethargic or incapable in implementing strict quality control. There is a rush of production and despatch due to unrealistic production and sales targets, which neglects the quality control aspects. The poor quality of products often results in rejection of material at the customer's end. This not only results in financial loss but also results in loss of creditability.

5. *Lack of forecasting vision*

An industry requires forecasting ability in the marketing as well as in the financial field. A correct market forecast results in avoiding unnecessary inventory build up. It also helps in avoiding locking of funds. A correct market forecast also helps in changing the product mix to a more marketable combination. Financial forecasting is also important for it helps in the proper management of finances. In industries where the raw material prices fluctuate, a good forecaster makes the purchases at the most advantageous time. He has to keep an eye not only on the Indian market but also on international markets. These forecasts are based on experience and proper knowledge of raw materials and financial activities.

6. *Dependence on product*

An entrepreneur is often lured into playing safe by supplying the product to one company. In fact the entrepreneur acts as the ancillary unit of the company. Big companies often lure entrepreneurs by offering attractive benefits like advance payment, finance for infrastructure, and machinery on lease. All these facilities are costly and result in reducing profitability and making the small-scale unit sick.

(b) Financial Institution's Faults

1. *Insufficient finance*

Financial units tend to be extra cautious in releasing finances and in the volume of finances given. Half-hearted financing often results in inefficient working of the unit, resulting in its failure.

2. *Lack of support when in difficult times*

It is when the entrepreneur faces a difficult situation that he requires the help of financial institutions the most. It is at this constant that the financial institutions withdraw their support and begin hounding the entrepreneur for repayment. This leaves the entrepreneur little option but to run around to arrange for finances, thus drawing his attention away from production and quality control.

3. *Too many restrictions by the RBI or financial institutions in financing the sick SSIs*

4. *Red tapism and inefficient working*

5. *Lack of monitoring of progress of SSIs*

(c) Other Factors

1. *Recessionary trend in the market*

A recent phenomenon, this is the most common reason for SSI sickness today. Protecting indigenous goods and giving subsidy is the only way to correct this. Increase in government spending is one way of arresting the recessionary trend.

2. *Competing with imported goods*

As many governments subsidise imported goods manufacturers, such countries can afford to dump their goods at prices less than the indigenous production cost. This can be corrected by levying heavy customs duty on imported goods and enforcing strict quality standards. The domestic industry should be made quality conscious and must be required to pay less duties like central exercise and sales tax.

3. *Impact of globalisation and WTO*

WTO regulations, when fully implemented, will open the floodgates for imported goods, making the survival of SSIs still more difficult. Hence SSIs must be helped by the big industries and the government to take up these challenges.

Box 7.3 Reality behind the Entrepreneurial World

- The wind of entrepreneurship blowing in the country hides shocking realities behind the 'enterprising world". A large number of cases are coming to light where entrepreneurs are being sent to jail following recovery proceedings under various laws.
- Eye-opening instances of turpitude, harassment, and gross human rights violations are being reported during the process of recovery of dues, once an industry is failed. There is a jail term for seemingly each and every payable due to the government whether it is sales tax or electricity or income tax or loans from State Financial Corporations, and so on. Further, under the labour laws alone, the jail term could be awarded for half a dozen instances.
- According to Dinesh Singhal, President of Federation of Indian Micro and Small and Medium Enterprises (FISME), instead of awarding the jail term only as an extreme measure, it is being handed down quite casually without proper verification of records. In one case the entrepreneur was sent to jail after the recovery proceedings following his inability to pay the raised demand and later the demand was dropped by the department terming it as a mistake—so casual is the approach. These cases are not even reported in the media as associations and the society leaving no option for him but to either commit suicide or abscond from the situation as the failed entrepreneur.
- FISME and Rajiv Gandhi Foundation are embarking upon a joint study to study the procedures of recovery of dues exercised in India for small industries and to suggest a fair system of recovery and winding up for them. As the maximum number of cases has been reported from the State of Uttar Pradesh, the State is being taken up first for the study.
- The President of FISME further said that much of the harassment was due to absence of fair winding up procedures for small industries in case of natural failures in India.
- "Failures would always occur in businesses for there is no business without risk. There is an urgent need—especially after liberalisation, to bring about a change in the way failures are perceived in government and in society. The government should take a cue from the EU as to how hard they are trying to emulate entrepreneurship of North America by drastically changing their laws governing SMEs", he said.

CASE STUDIES OF SICK SSI UNITS IN INDIA

Case 1

Name of the company	ABC
Constitution	Private limited
Installed capacity	10 TDB
Product and activity	Manufacture of duplex boards used for packaging

Background

ABC Company was incorporated in 1994. The estimated project cost was Rs 178 lakh during 1995. They have availed seed capital assistance of Rs 15 lakh from IDI. state subsidy of Rs 13 lakh from the government of Andhra Pradesh. ABC Company, located in the south, had the advantage of proximity to the consuming points. Their product was basically used for packing of fireworks, incense, pharmaceuticals, consumer durables, and footwear.

Causes of Sickness

(1) Delay in implementation of the scheme, which resulted in cost over run.

(2) Frequent changes in the management setup had an adverse effect on the overall management of the affairs of the company.

(3) The new directors of the company lacked the experience and were not familiar with the market for papers and boards.

(4) Imbalance in the manufacturing section including problems like frequent power interruptions finally resulted in bottlenecks in production.

(5) Non-availability of required working capital for the company.

Rehabilitation Package

(1) Another company was to take over ABC by effecting change in management through purchase of equity shares held by the erstwhile promoters.

(2) Reconstitution of the board of ABC was required.

(3) The directors would supply the requisite raw materials to ABC on credit.

(4) The company that took over arrang to pay for the payoff taken immediately will market ABC's entire production for the first two years.

(5) Procurement of additional machinery for increasing the quantity of production and to enhance the quality as well.

(6) Installed capacity of the plant to increase from the present 10 TDP to 20 TDP.

(7) Additional water pumps, fan pumps, high pressure oscillating showers were to be put in.

Cost of Rehabilitation Package

Particulars	Rs in lakh
Capital expenditure under the scheme	98.08
Down payment to institution	10.00
Dues to electricity board	14.18
Creditors for finance	5.00
Working capital funds (1994–95)	20.15
Provision for contingencies	2.59
TOTAL	**150.00**

Means of Finance

Particulars	Rs in lakh
Promoter's contribution	60.00
Fresh term loans	
State Small Industries Development Corporation (SSIDC)	85.00
State Finance Corporation	5.00
TOTAL	**150.00**

Relief and Concessions

(a) State Financial Corporation (SFC):

(1) Sanction for an additional term loan of Rs 5 lakh towards the scheme carrying interest @ 16.5 per cent and repayable in 26 quarterly instalments commencing from December 1995.

(2) Waiver of the penal interest charged upto date.

(3) Approval for funding of interest dues upto 31/3/1994 carrying interest @ 13.5 per cent p.a. and repayable in 26 quarters commencing from December 1995. SFC's share of Rs 3.8 lakh from the down payment made by the company would be adjusted against the above dues.

(4) Approval for funding the interest falling due for two quarters @ 13.5 per cent p.a. interest for repayment in six quarters commencing from December 1995.

(5) Approval for rescheduling of the existing loan outstanding at contract rate for repayments in 26 quarters.

(b) IDBI

(1) Approval for rescheduling the repayments of the development loan of Rs 13 lakh over a period of 6.5 years from December 1994 with interest @ 18 per cent p.a.

(2) Approval for sales tax incentives as applicable for expansion for the project under the declared policy.

(3) Exemption for power cut to the extent of 50 per cent of the normal cuts, as applicable to sick units.

(c) Incoming promoters

(1) They shall bring in contribution of Rs 60 lakh as fresh capital.

(2) They should undertake to meet any shortfall in projections to achieve the projected DSCR by bringing the interest-free funds on terms satisfactory to the corporation.

(3) They shall purchase the entire share capital of the company at par value on terms satisfactory to the corporation.

(4) They shall constitute the management committee comprising representatives of SSIDC, SFC, and MD of the company to oversee the implementation of the scheme.

(5) They should arrange to replace the existing security for four acres of land located adjacent to the factory.

(d) SSIDC

(1) The penal interest charged on the company's account upto 31/3/1994 to the extent of Rs 6.79 lakh would be waived.

(2) The interest accruals for two quarters estimated at Rs 9 lakh shall be funded.

(3) The company shall repay the proposed loan of Rs 133 lakh in 26 quarterly instalments falling due from December 15, 1995.

(4) The existing loan balance of Rs 26 lakh shall be repaid in 26 quarterly instalments of Rs 1 lakh commencing from December 15, 1995.

Case 2

Name of the company	XYZ
Constitution	Private limited (medium scale)

Installed capacity	1560 mts.p.a.
Product and activity	HDPE/PP woven sacks used for packaging of cement, fertilisers

Background

XYZ was incorporated in 1986. Initially it was assisted by term loans from SSIDC and SFC besides seed capital/development loan. Due to poor performance the company was given a rehabilitation package in 1990 by the institutions. Even though operations improved subsequently, the performance deteriorated during 1993–94 on account of import restrictions and the company became sick within the provisions of the Sick Industrial Companies (Special Provisions) Act. It made a reference to BIFR during 1993. During 1995 the company came up with a proposal for effecting a change in the management.

Causes of Sickness

(1) There were capacity imbalances in the company's operations.
(2) There was lack of perspective in respect of the marketing strategy implemented by the company.
(3) Delay in adding up balancing equipment.
(4) Inadequacy in the financial planning adopted by the company.
(5) There was a strong adverse effect of the jute mandatory order.
(6) It was found that inefficient management existed due to inadequate concentration on the project.

Rehabilitation Package

(1) The company had proposed to procure additional winders.
(2) The company adopted the idea of implementing six additional looms.
(3) The construction of additional area of 5000 sq. ft. was taken up.
(4) It was proposed to have a change in management.
(5) DG set of 320 KVA capacity was to be purchased.
(6) Existing directors were to resign from directorship.

Cost of Rehabilitation Package

Particulars	Rs in lakh
Capital expenditure	80.00
Working capital margin	3.25
Amount paid to existing shareholders	0.41
TOTAL	**83.66**

Means of Finance

Particulars	Rs in lakh
Promoter's contribution	34.66
Debt term loans SIIDC	39.00
SFC (DG Set)	10.00
TOTAL	**83.66**

Relief and Concessions

(a) Promoters (existing)

(1) The personal guarantees of the promoters shall be released after obtaining the personal and corporate guarantee of the new promoters.

(2) The existing collateral security given to the bank shall be released after suitable collateral is furnished by the new promoters to the satisfaction of the bank.

(b) Promoters (new)

(1) To contribute Rs 34.66 lakh as equity share capital to the company and to bring in additional capital as and when required for its working of the unit (within three months).

(2) To broad base the board of directors of the company in consultation with the operating agency.

(3) To inject funds into XYZ should there be any shortfall in the projected cash flow.

(4) To furnish personal/corporate guarantees.

(5) To obtain all necessary permissions from other concerned authorities for effective information of the scheme wherever necessary.

(c) Company

(1) Not to declare any dividend or pay interest on unsecured loan during the tendency of dues to financial institutions and banks.

(2) To appoint independent firm of chartered accountants as concurrent auditors.

(3) To form a management committee comprising the CMD and nominees from BIFR, SBI and financial institutions.

(4) To pay 16.5 per cent interest for additional working capital facilities.

(5) To clear all dues of banks and financial institutions within a period of eight years.

(6) To enter into a long-term agreement with the workers in order to facilitate the rehabilitation programme.

(7) To appoint qualified professionals and experienced personnel in key positions.

(d) KSFC

(1) To reschedule the repayment of existing term loan of Rs 19.87 lakh which shall carry interest @ 14.5 per cent for a period of seven years commencing from 1/7/97 to 1/4/2004.

(2) To reschedule the repayment of existing term loan of Rs 10.12 lakh which shall carry interest at the rate of 11 per cent for a period of seven years.

(3) To reschedule the repayment of existing term loan of Rs 39.67 lakh @ 16.5 per cent interest.

(4) To reschedule the repayment of existing Flat Interest Term Loan of Rs 19.36 lakh @ 13.5 per cent p.a. interest.

(5) To waive the penal interest on existing term loan.

(e) SBI

(1) To fund the regular portion of working capital amounting to Rs 21 lakh as working capital term loan based at 1 per cent below MPLR, which is 16.5 per cent at present repayable from 1/7/97 to 1/4/2004.

(2) To continue to extend the facility of existing working capital limits after segregating working capital term loan and the funded interest. The term loan of Rs 8.18 lakh at present interest rate of 14 per cent and 9 per cent respectively.

(3) To sanction need-based additional working capital with the usual margin of 25 per cent as and when required @ 16.5 per cent p.a. interest.

(f) IDBI

To reschedule the seed capital of Rs 11 lakh payable from the year 1999–2000 to 2003–2004.

(g) Government of Karnataka

(1) To consider refunding the sales tax paid on the new DG set.
(2) To consider refunding the sales tax paid on diesel purchased.
(3) To consider the grant of benefit of sales tax department under government standard policy.
(4) Exemption of electricity tax.
(5) Sanction of additional power from the State Electricity Board.
(6) Exemption of the unit from power cuts.
(7) Restructure the repayment of development loan of Rs 6 lakh subject to payment of interest @ 18 per cent p.a.

(h) Central Government.

To consider granting relief under sec 31, 49 (1), and 79 of the Income Tax Act 1965 to carry forward the losses on change of management.

(i) SIIDC

(1) To reschedule the repayment of existing term loan of Rs 54.76 lakh @ 14.5 per cent p.a.
(2) To reschedule the existing term loans of Rs 1.19 lakh @ 11 per cent interest p.a.
(3) To reschedule the repayment of existing term loan of Rs 13.24 lakh @ 11 per cent interest p.a.
(4) To reschedule the repayment of existing term loan of Rs 39.66 lakh @ 16.55 per cent interest p.a.
(5) To reschedule the repayment of existing FITL of Rs 48.20 lakh @ 13.55 per cent p.a.
(6) To fund the interest accural from 1/7/94 to 30/6/96 Rs 45.55 lakh @ 16.5 per cent interest p.a.
(7) To sanction additional term loan of Rs 49 lakh @ 19.5 per cent interest p.a. with a repayment schedule of six years.
(8) To waive the penal interest on existing term loan upto June 30, 1996.

Note: All these loans are for a period of seven years commencing from 1/7/97 to 1/4/2004.

Case 3

Name of the company	PQR
Constitution	Private limited (medium scale)
Installed capacity	18,000 tonnes
Product and activity	Steel products for converting into roll products (MS billets)

Background

PQR was established as a mini steel plant. It had a license to produce 9000 TPA of MS ingots. In 1979 the company became a deemed public company. The company had taken a loan from SIIDC on the expansion project. In the meantime the company incurred continuous losses and was declared as a sick unit under the Sick Industrial Companies (Special Provisions) Act, 1985 on June 20, 1989.

Causes of Sickness

(1) Steep increases in the input cost without commensurate hike in the selling price.
(2) Diversion of working capital funds to the extent of Rs 29 lakh to one of the associate units of the promoters.
(3) Underutilisation of rolling mill and scale of products at intermittent stage.
(4) Low productivity in melting as well as the recalling sections.
(5) Lack of control over the consumption of consumables, power, and administrative overheads.
(6) Absence of professionalism in the management.
(7) Adverse marketing conditions.

Rehabilitation Package

(1) Envisages takeover of the management, control, and ownership of the company by other associates.
(2) The executive director will continue to be a full time director.
(3) Recondition and repair of the existing machinery in the necessary sections.
(4) Installation of an induction furnace having a capacity of 5 tonnes per year.
(5) To pay off the pressing creditors.

Cost of Rehabilitation Package

Particulars	Rs in lakh
Cost of installation of new induction furnace	120.00
Repairs, reconditioning and balancing equipment	30.00
Purchase of assets	33.00
Payment of pressing creditors	50.00
Down payment to sale tax arrears	20.00
Preoperative expenses	10.00
Working capital margin	42.00
Margin for contingencies	—
TOTAL	**305.00**

Means of Finance

Particulars	Rs in lakh
Promoter's contribution (new)	82.00
Additional term loans	
SFC	24.00
SIIDC	24.00
IRBI	140.00
Canara Bank	27.00
Realisation of dues	18.00
TOTAL	**305.00**

Relief and Concessions

In order to help the company in overcoming the immediate financial problem and ensure viability in the long run, the following relief and concessions are envisaged under the rehabilitation programme.

(a) SFC

(1) To find out unpaid interest (Rs 25,000 lakh) between 1/5/96 and 30/9/96 to a term loan with 10 per cent interest repayable between 1993–94 and 1997–98.

(2) To rephase the existing term loans (Rs 30 lakh) repayable in eight years between 1994–95 and 2001–02 @ 11.5 per cent interest for Rs 19 lakh and 13.5 per cent for Rs 12 lakh.

(3) To waive the penal interest of Rs 1.43 lakhs upto 30/9/91.

(4) To sanction a term loan of Rs 24 lakh repayable between 1994–95 and 2001–02 at prevailing rates of interest.

(b) SIIDC

(1) To fund unpaid interest (Rs 47 lakh) from 1/5/86 to 30/9/91 into a term loan with 10 per cent interest payable in six years between 1993–94 and 1997–98.

(2) To rephase the existing loan (Rs 102 lakh) as repayable between 1994–95 and 2001–02 at an interest rate 2 per cent less than the prevailing rate of interest (normal interest from 1/10/98).

(3) To waive the penal interest upto 30/9/91 (Rs 2 lakh approximately).

(4) To sanction a term loan of Rs 24 lakh repayable between 1994–95 and 2001–02 at the prevailing rates of interest.

(c) IRBI

To sanction fresh term loans (Rs 140 lakh) repayable between 1994–95 and 2001–02 at the prevailing the rate of interest.

(d) Canara Bank

(1) To fund unpaid interest from 1/5/86 to 30/9/91 (Rs 173 lakh) into a term loan at 10 per cent interest repayable between 1993–94 and 1997–98.

(2) To waive penal interest upto 30/9/91 (approximately Rs 3 lakh).

(3) To convert the irregular portion of working capital into working capital term loan (Rs 110 lakhs) with 13.5 per cent interest repayable between 1994–95 and 2001–02 (normal rate of interest from 1/10/98).

(4) To sanction a term loan of Rs 27 lakh towards statutory dues and pressing creditors at the prevailing rate of interest repayable between 1994–95and 2001–02

(5) To consider and sanction seed working capital (interest 15 per cent p.a.)

(e) State Government

(1) To recover sales tax and entry tax arrears of Rs 120 lakh (estimated on 30/9/91), in five years from 1/10/91 to 30/9/96 as follows.

- Rs 20 lakh as down payment in 1991-92.
- Rs 100 lakhs between April 1992 and September 1996 in five instalments of Rs 20 lakh each. No interest is payable on the arrears as per dated 27/9/90.

(2) To grant additional power to the extent of 1000 KVA. The State government may also consider the following to improve the viability of the company.

- Deferment of collection of sales tax for five years as per the scheme in force.
- Exemption from 50 per cent of power cut.

(f) Central Government

(1) To sanction exemption from section 41 (1) m, 79 of Income Tax Act.

(2) To sanction excise loan as per the scheme in force.

(g) Incoming Promoters

(1) To pay the outgoing promoters share transfer price at 10 per cent of paid-up value of shares acquired.

(2) To get all shares excepting shares having a paid up value of Rs 10 lakhs transferred to promoter's immediately.

(3) To guarantee the repayment of liabilities including statutory liability within 10 years.

(4) To bring in all funds as per share capital or as unsecured loans to be subordinated to the banks.

(5) To bring promoter's contribution within one month from sanction of the scheme.

(h) Outgoing Management

(1) To ensure smooth transfer of the management of the company.

(2) To transfer the entire shares of the company to the incoming group immediately on receipt of the agreed share price after obtaining consent from the banks and financial institutions.

(3) To continue to make available the personal guarantees of the executive director for the existing liabilities of the company to banks or financial institutions.

Case 4

Name of the company	NIT
Constitution	Private limited
Installed capacity	20 tonnes per day
Product and activity	Paper and boards production

Background

NIT started operations in May 1985 against the original schedule of January 1983. Due to continued losses suffered by NIT, the institutions/banks in 1989 came to the conclusion that in order to improve the operations and restore long-term viability, induction of funds to the extent of Rs 38 lakh towards capital expenditure and margin for working capital was necessary. The BIFR sanctioned a rehabilitation scheme, which however did not take off. The BIFR held on 19th March 1995 that a rehabilitation scheme be formulated on the basis of relief and concessions from the institutions/banks under the RBI.

Causes of Sickness

(1) Lack of adequate working capital facilities which has resulted in NIT not achieving an economic level of operation.

(2) Delay in sanction of power connection.

(3) High incidence of operational losses.

(4) Poor quality of finished products.

(5) Inefficient management.

Rehabilitation Proposal

(1) Negotiated settlement with institutions/banks for term or working capital loans.

(2) Working capital arrangement was to be made from some alternate source.

(3) Change in product mix with bias towards value-added products was to be practised.

(4) Reduction in the cost of production.

(5) Gradual increase in capacity utilisation from 28 per cent in 1995–96 to 80 per cent in 1998–99. Enhancing of the capacity utilisation was urgent.

(6) The company was to make all the payments to the suppliers due held by them.

(7) Promoters were to bring in equity/interest-free funds of the minimum order of Rs 458.10 lakh in 1996–97 in addition to the Rs 140 lakh in 1995–96 towards meeting the cost of the scheme.

Cost Of Rehabilitation Package And Means Of Finance

Particulars	Rs in lakh
Statutory liability	75.22
Margin money for working capital Pay to SIIDC	37.15 112.51
Pay to SFC	54.83
SBM	221.59
Corporation Bank	168.00
Payment to State Government	9.65
TOTAL	**678.95**

Relief and Concessions

(a) SIIDC

To accept the payment of entire outstanding dues upto March 31, 1996 (aiming at Rs 305.87 lakh) as under.

(1) Down payment of Rs 40 lakh adjusted towards FITL in 1995–96.

(2) Amount of Rs 265.87 lakh payable in quarterly instalments.

(3) Outstanding dues of Rs 305.87 lakh carrying interest @ 15 per cent p.a. commencing from 1/4/96 on reducing balance basis.

(4) To release the charge on the fixed assets of NIT/ personal guarantees of promoters on payment of the last instalment of the OTS amount.

(b) Promoters

(1) To bring in equity/interest-free funds of the minimum order of Rs 458.10 lakh in 1996–97 in addition to Rs 140 lakh in 1995–96 towards meeting the cost of the scheme.

(2) To arrange for meeting the working capital requirement of NIT either through a new bank or to induct requisite funds carrying interest not exceeding 17.25 per cent p.a. for meeting the said requirement pending release of working capital by the bank.

(3) To convert unsecured loans of Rs 140 lakh into equity in 1996–97.

(4) To agree to meet the shortfall in meeting the cost of the scheme b/cash flow by induction of interest free funds.

(c) State Bank of Mysore

* Term loans/working capital loans

To accept payment of outstanding liabilities for Rs 221.59 lakh as under.

- Down payment of Rs 100 lakh payable before March 31, 1996.
- Rs 50 lakh in the month of April 1996.
- Balance dues of Rs 71.59 lakh payable in six monthly instalments commencing from July 1996, carrying interest @ 15 per cent p.a. on reducing balance basis with effect from 1/1/96. (Rs 20 lakh since paid.)
- To issue no objection certificate for drawing need-based working capital from a new bank.
- To release the charge of the fixed assets of NIT/personal guarantees of the promoters on payment of the last instalment of the OTS amount.

(d) Corporation Bank

* Term loans/working capital loans

(1) To accept the payment of the outstanding dues for Rs 168 lakh, payable in 12 monthly instalments as under.

- Down payment of Rs 21 lakh (already paid).
- Down payment of Rs 21 lakh payable within 10 days of sanction of the scheme.
- Down payment aggregating to Rs 42 lakh would carry interest @ 15 per cent p.a. with
- effect from 1/4/96 till date of payment on a reducing balance basis.
- The balance outstanding dues of Rs 126 lakh payable in 12 monthly instalments (carrying interest calculated at monthly rate of interest @ 15 per cent p.a. with effect from April 1996, commencing one month after the date of payment.)

(2) To issue a no-objection certificate for drawing need-based working capital from a new bank.

(3) To release the charge on the fixed assets of NIT/personal guarantees of promoters on payment of the last instalment of the OTS amount.

(e) SFC

(1) To accept payment of the entire outstanding overdue upto March 31, 1996 as under.

- Down payment of Rs 25 lakh to be adjusted towards FITL within 30 days of sanction of the scheme.
- The balance amount of Rs 84.79 lakh payable in 11 equal quarterly instalments.
- Outstanding amount of Rs. 109.38 lakh would carry interest @ 15 per cent starting from April 1, 1996 on reducing balance method.
- To release the charge on the fixed assets of NIT/personal guarantees of the promoters on payment of the last instalment of the outstanding amount.

(f) State Government

To reschedule the outstanding development loan so as to repay in 12 quarterly instalments as already approved under the earlier rehabilitation scheme.

(g) Government of India

To consider granting relief to the company under section 41(1) of the Income Tax Act, 1961 in respect of the waivers of interest available in the company under the rehabilitation scheme.

Case 5

Name of the company	LMN
Constitution	Private limited
Installed capacity	9,07,000 nos. p.a.
Product and activity forgings	Manufacture of ferrous and non-ferrous bars

Background

LMN was incorporated in 1982 to manufacture forging and castings of all types metals and alloys. It established a unit at Bommasandra industrial area for the manufacture of precision forgings in automotive engines. The company became sick because it faced heavy interest burden. The BIFR in its hearing on 6/12/1990 held that the company was sick.

Causes of Sickness

(1) The company was faced with heavy interest burden on the loaned funds in the initial years of its working.

(2) There existed a lot of bottlenecks due to the lack of power supply and power cuts.

(3) For a manufacturing concern like this there was low capacity utilisation or under utilisation.

(4) The company had an unusually long gestation period. The actual production started in 1998.

(5) In the absence of a tool room facility, the production schedules were seriously affected.

(6) Non-availability of die making and servicing facilities.

(7) The nature of the products of the company calls for high degree of precision and accuracy, which delays operations.

Rehabilitation Package

(1) To eliminate the drawbacks existing in the unit.

(2) To balance the various equipment with an aim to enhance achievable production levels.

(3) A captive tool room is considered a minimum requirement of the unit.

(4) Effective utilisation of the hydraulic press.

(5) Funds to be brought in as working capital.

(6) The company needs to bring in additional term loans.

Cost of Rehabilitation Package

Particulars	Rs in lakh
Capital expenditure	23.30
Payment of pressing creditors	5.32
Margin money for working capital	6.48
Cash losses coverage	5.21
TOTAL	**40.31**

Means of Finance

Particulars	Rs in lakh
Promoter's contribution	8.86
Contribution from other institutions	31.45
TOTAL	**40.31**

SUMMARY

- Due to the impact of WTO and GATT, some amount of transitional problem in the economy is unavoidable. Since most Indian SSIs have not yet gained the strength to withstand the changes that have taken place in the economy, they are now losing their economic strength and giving advance signals of possible large-scale sickness.
- A small-scale industrial unit is considered sick when if any of the borrowal accounts of the unit remains substandard for more than six months, that is, principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as substandard, is reduced in due course; or there is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year, and the unit has been in commercial production for at least two years.
- For an emerging economy like India, SSIs are the backbone for achieving sustained economic growth. The growing sickness in SSIs is alarming and timely action needs to be taken to protect the SSIs in the interest of the economy. In view of the changing economic scenario, the immediate need is to focus on those problems of SSIs to enable them to face the emerging challenges.
- A unit may be regarded as potentially viable if, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from a financial institution, government and other agencies, it would be in a position to continue to service its repayment obligations as agreed upon. The period of repayment for restructured debts should not exceed seven years from the date of commencement of the package.
- In case of tiny units and the decentralised sector, the period of relief and concessions and the repayment period of restructured debts shall not exceed five years and seven years respectively. It will be for the banks and financial institutions to decide whether or not a sick unit is potentially viable for rehabilitation.
- In the wake of sickness in the country's industrial climate prevailing in the 1980s, the Government of India set up, in 1981, a committee of experts under the chairmanship of T.Tiwari to examine the matter and recommend suitable remedies. Based on the recommendations of the committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986), commonly known as the SICA.

KEY WORDS

- Sick unit
- RBI
- Borrowal accounts
- Third All India Census

- Exogenous
- Endogenous
- Rehabilitation
- Nayak Committee
- State Level Inter Institutional Committee (SLIIC)
- Kohli Committee
- Working capital
- Contingency loan
- Re-compense
- Recession
- W T O

EXERCISES

Assignment 1

Visit a local sick SSI unit. Identify the causes of sickness and prepare a brief report on cost of rehabilitation and means of finance, not exceeding four A4 size pages with suitable margins.

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Strategic Management in Small Business

8

Dyan Mandira of a Business Ashram, in Karnataka, India. Shown in picture is the statue of Swamy Vivekananda, who is known for value systems. The business strategies are derived from vision and mission statements of an enterprise.

"Business is like a war in one respect. If its grand strategy is correct, any number of tactical errors can be made and yet the enterprises prove successful."

—Robert E. Wood

Learning Objectives

- To identify the phases in the organisation life cycle and organisation renewal cycle
- To understand the importance and process of strategic management
- To identify the essence of business ethics

ORGANISATION LIFE CYCLE

The small business management calls for a wide variety of talents far beyond those of the persons performing or in charge of any single business function in a large undertaking. This is because of the fact that, by and large, a small business is dependent on promoters' skills.

New ventures pass through transitional stages that present challenges to their founders. These transitional stages are represented by an organisational life cycle. This life cycle requires changes in entrepreneurial behaviour, and because many entrepreneurs cannot adapt to new role responsibilities, their ventures can fail or be terminated. In some instances, the venture survives but the entrepreneur is ousted. Consequently, there are many issues to consider for successfully managing ventures during their transition from embryonic to mature organisations.

The organisation life cycle comprises five stages: start up, expansion, consolidation, revival, and decline. These are explained in terms of three variables: growth, product/market definition, and organisation. As the venture progresses from one stage to the next, conditions change, requiring different decisions for managing growth, developing products and markets, and organising the company.

Start-up Stage

During this stage, growth is inconsistent, sales seldom meet a founder's expectations, and they can occur haphazardly. In extreme circumstances—markets will be chaotic spurts and disappointing sputters. This chaos can absorb entrepreneurs in their daily struggle to survive. In the worst-case scenario, markets may be dormant, leaving the entrepreneur bewildered. If consistent growth does not provide a pattern of sales targeted to narrow market niches, confusion persists. During this initial stage, entrepreneurs modify their products, change distribution systems, alter services, and experiment with marketing tactics in an attempt to survive, they are "fighting fires" every day. The venture's objectives also are undifferentiated from those of the founders. The organisation is therefore a personal expression of a single entrepreneur or a few partners. It follows that the psychological characteristics of founders largely determine how the venture progresses through the start-up stage.

SNAPSHOT

- The organisation life cycle comenses five stages: ***Start up, Expansion, Consolidation, Revival, and Decline.***
- Reversing a company's pattern of poor performance is called turning it around. For entrepreneurs who survive the earlier stages and who are also capable of turning their ventures around, the metamorphosis is complete.

Expansion Stage

During this stage, rapid growth results in a pattern of success that is useful for evaluating market position and new product potential. The venture is transformed from a single-line enterprise operating in a limited market to a multilane company penetrating new markets. Product and service lines are broadened through innovation and development, and the organisation expands through functional authority. Decision-making may be centralised during early growth, but departmentalisation ensures, dispersion of authority. To meet these challenges, entrepreneurs must enlarge the enterprise and delegate authority for functional coordination.

Consolidation Stage

As competition intensifies within a growing industry, businesses are faced with marginally smaller incremental shares of markets. The result is a competitive struggle at a slower rate of growth during what is often called an industry shakeout period. Weaker companies fail, some are sold or merged with others, and many consolidate to remain profitable.

Consolidation occurs differently for every organisation. Manufacturers may trim operations, reduce product lines, or retreat from marginally profitable markets. Service companies reduce staff, streamline distribution systems, and withdraw from high-risk markets. In all cases, organisations tend to shift authority downwards as middle-and higher-level staff are reduced to improve efficiency. The result is a leaner organisation.

A consolidated company can successfully maintain this downsized posture for a prolonged period of time; growth is not essential. The consolidated company, however, must rationalise having a smaller market segment with commensurate profits.

Revival Stage

The revival stage is one of "rekindling" organisational growth. Rapid growth can be achieved by clever repositioning of product lines and services through purposeful market segmentation. Repositioning sets the stage for a strategy of product or service diversification. In order to achieve rapid growth, innovation is essential, and because the company needs to incubate new ideas, greater responsibility is given to division managers for independent development. In effect, company executives attempt to revive a spirit of entrepreneurship in their operational managers by empowering them with authority for self-direction. As a result, organisations are restructured through product, geographic, or customer divisions, and functional hierarchy is subordinated to divisional leadership. To the extent that innovative products and services emerge, the company can experience a revival in growth. If repeated consistently, innovation results in a pattern of upward growth. Corporations with strong performance records recognise this cycling of innovations and therefore, commit significant resources to research and development.

Decline Stage

Growth declines once again if revival strategies are short-lived or ineffective. Companies in decline often are those that have diversified too widely or created excessively bureaucratic organisations. Consequently, it is not unusual to find that a declining venture has lost sight of its distinct competency in products or services that initially proved successful. Founding entrepreneurs, if they are still with their ventures, will have failed to adapt to leadership challenges in previous stages and subsequently pushed their companies to the brink of disaster.

Successful ventures will not complete the life cycle; by definition, they avoid decline. They will have enjoyed growth through product or market expansion, consolidated when necessary, and experienced a revival of growth consistent with their capabilities and the industry in which they compete. This they will do by turning the venture around.

Turning the Venture Around

Reversing a company's pattern of poor performance is called turning it around; and for those ventures suffering from reduced sales and profits, the turnaround begins during the consolidated stage. More to the point, decisions made to achieve consolidation help reposition the company so that it can be "turned around". It is during the revival stage, however, that turnaround efforts are realised. This is the time when market segmentation becomes more keenly focused through customer-oriented activities. It is also when research and development begin to pay off in high-yield products and services. And it is the time when a streamlined organisation can regain the offensive for competing effectively.

For entrepreneurs who survive the earlier stages and who are also capable of turning their ventures around, the metamorphosis is complete. They will have grown with, and been transformed by, the responsibilities of managing their ventures. Although their roles are significantly different by the time they reach a revival stage, their responsibilities are no less challenging. As founders, entrepreneurs have to be visionaries and aggressive competitors. As turnaround managers, they have to inspire their employees to be visionaries and aggressive competitors. Therefore, they can neither lose their entrepreneurial zeal nor suffocate their organisations with controls. As this stage, the entrepreneur is a professional manager who leads but does not dominate, delegates but does not abdicate, and controls but does not stifle the organisation.

Studies have shown that envisioning, planning, and goal setting can improve organisational performance. Attractive visions of the future have great power. We call an organisation that is built around a deep sense of values, mission, and vision an essence-driven organisation. This kind of organisation has tapped the energy that

Box 8.1 Why Should an Organisation Have a Vision

- Brings people together around a common dream.
- Coordinates the work of different people.
- Helps everyone make decisions.
- Builds foundation for business planning.
- Challenges the comfortable or inadequate present state.
- Makes incongruent behaviour more noticeable.

Churchill, N. C. and V. L. Lewis (1983). "The five stages of small business growth," *Harvard Business Review*, 61 (3): 30–50.

results from its own clarity of direction and focus. The essence-driven organisation has a greater capacity to weather changes in the marketplace and customer demand because of the clarity of its core purpose. An organisation driven by its essence knows its purpose and why it is important. Organisations that are tied to their essence are more powerful, command more commitment from employees and can get more work done in a changing environment.

Organisational Renewal Cycle

Organisations go through cycles as part of their growth and development. Organisations and groups choose different times to revisit and revise their inner identity. Most organisations start out with a clear purpose and a lot of energy. Organisations or teams passing this early phase are having fun and living their dream. They have a compelling vision, and they are propelled to make it happen.

Box 8.2 The Organisational Renewal Cycle

Phase 1 Creativity

- Work is for a clear purpose
- Excitement about a new idea model/product/market
- Lots of vision
- Chaotic/fun atmosphere
- Growth is fast and easy, almost natural

Phase 2 Stability

- Purpose stays the same
- Structure solidifies with policies, procedures, standards
- Controls set in, standards are enforced
- Management becomes more "professional"
- Thinking about the future and planning is done at the top

Phase 3 Crisis

- The environment changes
- Standards are enforced from the top
- People work harder
- Results slip
- Group runs out of steam, loses vitality

Phase 4 Renewal

- Revisit basic purpose
- Renew mission, values and vision
- Redefine, question what the organisation is doing
- Reconnect with customers/market
- Forge new directions

After its initial period of creative excitement, the organisation or group enters stability or managed growth. They build the structure to ensure that their purpose is carried out consistently and define the way things are done. But in doing so, they inevitably lose something. Organisations at this developmental stage predictably become set in their ways and lose their ability to innovate and respond to the marketplace. Eventually, company employees feel that the magic has gone out of the work and now it is "just" work. Sometimes a shift in the environment, maturing of a product or a crisis forces the organisation or group to act differently. It needs change.

DISCUSSION FORUM

- Explain the stages in the organisation life cycle with an example.
- Explain the concept of turning a venture around with an example.

STRATEGIC MANAGEMENT

Making effective strategic decisions is a theme that occurs throughout the organisational life cycle and the nature of the decisions taken at various stages changes as the company evolves. Entrepreneurs are preoccupied with survival during the start-up period; consequently, their strategies are limited to making a single product or service successful. With rapid growth, their strategic emphasis shifts to intense market development. As growth slows and the industry begins to shake out, entrepreneurs must adopt competitive strategies that can require severe retrenchment decisions. As entrepreneurs struggle to revive their ventures, they must focus their companies on distinct competencies that, in the long run, will stimulate growth and profitability.

A strategic plan is a blueprint to help develop and maintain a superior competitive advantage in the marketplace. Effective strategic planning helps you identify and take advantage of customer requirements, marketplace conditions, and your capabilities in order to establish superiority not only in your mind, but also in the mind of the customer.

For smaller businesses, strategic plans are especially important because these businesses are extremely vulnerable to the smallest changes in the marketplace. Changes in customers, new moves by competitors, or fluctuations in the overall business environment can directly impact their cash flow in a very short time frame. Negative impact on cash flow, if not anticipated and adjusted for, can force them to shut down. That is why they need to plan for their future. They need to anticipate what the future may hold and adjust their thinking and actions to compensate for any potential negative impact.

Small entrepreneurs generally feel that strategic planning is for large business houses; in fact it is very essential for small and medium enterprises. Strategic planning is a change-oriented process. It gives a formal direction to the business. Planning horizon is the time required to implement a major strategic change. Planning can be long-term, medium-term, or short-term. There are a variety of perspectives, models, and approaches used in strategic planning. The way a strategic plan is developed depends on the organisation's leadership, culture, complexity of environment, size, expertise of planners, and so on.

Entrepreneurs too often procrastinate on annual planning. It seems a daunting task because they imagine annual planning to be a huge, time-consuming, difficult chore. Yet planning can be quick and easy. And it is an exercise in strategic thinking that helps you remove uncertainty, avoid surprises, pull your team together, and save time and money.

Strategic Planning: The Challenge

As a business owner or CEO, you can choose from a number of alternatives on how to run your business. Convinced that you have a good product, a wide-open marketplace, and little competition, you could well decide to just get on with it and let the pieces fall where they may. This attitude is understandable.

Often, we are so consumed with what has to be done today – hiring people, making sure the customer is happy, getting that product designed and manufactured – that we just do not have time to think about tomorrow or the next year. Somehow, tomorrow will just have to take care of itself. Sometimes this works. Businesses can and do succeed without a well thought-out long-range strategic plan. In fact, sometimes you will hear a business owner say, "I never believed that my business could be this big or that I could be this successful." However, since statistics show that many start-up businesses fail within the first five years, a business owner or CEO can give his/her business the best chance of succeeding by doing everything possible to control its future. Most of the large, well-recognised, and successful businesses that you hear about today had a vision and a long-range plan; that is what got them there. These business leaders knew where they wanted to go and they did what was necessary to make it happen.

If strategic planning improves results, why do small business owners even think twice about it? Here are some of the common reasons to avoid strategic planning.

1. *I'm a small business. I don't need strategic planning.* If this is your perspective, then you absolutely need strategic planning. If you believe you are small, and approach business in that manner, in all likelihood, you will remain small. Strategic planning helps you see beyond the present, and envision what you can be. More importantly, it helps you determine how to get there.
2. *I do not have the time for strategic planning.* Strategic planning does take time. It also will take commitment. The motivation to dedicate the time and effort must come from you. If you find the motivation, the payoff could be enormous.
3. *If I have to stick to a strategic plan, it might limit my choices on how I run my business.* It is true that in developing a strategic plan you will have to choose among various courses or paths. By choosing one, you implicitly reject the other. However, strategic planning is not a one-time event – it is an ongoing process. Your choices are based on the best available information. As the information and situation change, you re-evaluate and move forward again.

4. *If I follow a strategic plan, it may be wrong for my business. I cannot afford that.* All business activities involve risk. Strategic planning is no exception. The risk, though, is a calculated one, and, as such, is minimised. Your decisions are based on knowledge, not assumptions or intuition.

Strategic planning begins with a restatement of the mission of the venture. This mission statement should be evaluated to ensure that it reflects the long-term vision of the entrepreneur. If it does not, then it should be modified to do so.

Next is the situation analysis, which should reflect such issues as

- What is the present business situation? What is the state of the industry?
- What is the state of the economy? What products or services are most profitable? Why do people buy (or not buy) our products or services? Who are our major competitors?
- What are the strengths, weaknesses, opportunities, and threats to the venture in the long term (three to five years)? This is often referred to as a SWOT analysis.

Figure 8.1 gives a simple five-step planning process that can be done in a day or less. You will need a few hours of uninterrupted time (best done in only one or two

Box 8.3 Outline for a Strategic Plan

- Business mission.
- Situation analysis.
- Internal environmental analysis—includes a discussion of the venture's strengths and weaknesses.
- External environmental analysis—includes a discussion of the venture's opportunities and threats (industry and competitive analysis) in the market-place.
- Goal formulation.
- Strategy formulation.
- Formulation of programmes to meet goals.
- Implementation.
- Feedback and control.

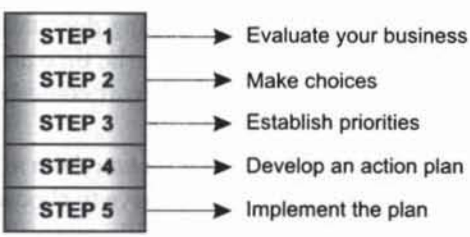

Figure 8.1 ■ Steps in strategic planning

sittings). So block off one day or two half-days. If you work with a partner, spouse, or key management team, participate in the planning process together.

Step 1 **Evaluate your business**

First look at what is important to you and decide where you are going. Define your prime purpose. This is what strategic thinking is all about. For this step, identify five or six key areas that are important and essential for your business—cash flow, customers, employees, image, growth, productivity, and so on. Write them down. These are your organisational values.

In each of these areas, develop a crystal clear vision of where you are going. What is possible? What does it look like when you live up to your best expectations in each of these areas? Describe, in writing, what it looks like and feels like when you reach your expectations in each key area. This represents a picture of your future, as you prefer it to be. If you articulate a clear vision of your preferred future, focusing on those areas that are important to you and to your business, that vision becomes your destination. That clear vision allows you to set goals that will move you towards your preferred future. That vision provides motivation, energy, purpose, and direction.

Starting with a clear vision of what is possible helps you answer the question you must ask yourself each day—why am I doing this piece of work and is it taking me where I need to go? Strategic planning requires a vision.

A vision is a powerful mental image of what an entrepreneur wants to create in the future. It reflects what he cares about most, represents an expression of what the mission will look like, and is harmonious with the values and sense of purpose. Visions are the result of the head and heart working together. They are rooted in reality, but the focus is on the future. They enable exploration of possibilities and desired realities. As a result of this, they become a framework for what the entrepreneur wants to create, which guides him/her in making choices and commitments for action. To create a context for envisioning, it is necessary to have a clear idea of the environment in which the group or organisation exists. Listed below are several common areas that organisations review in creating a clear picture of their situation.

Environment and Current Situation Exploration

(Refer Appendix 1 for worksheets)

- Review the organisation's present situation (Worksheet 8.1)
- Review the organisation's history (Worksheet 8.2)
- Revisit the energy/essence of the founders (Worksheet 8.3)
- Assess your strengths and weaknesses (Worksheet 8.4)
- Assess opportunities and threats
    a. Conduct environmental scan (Worksheet 8.5)
    b. Conduct customers and competition analysis (Worksheet 8.6)
- Refer scale for SWOT (Worksheet 8.7)
- Assess SWOT (Worksheet 8.8)
- Identify the critical issues or choices that you face regarding the future (Worksheet 8.9)

Step 2 **Make choices**

This process includes telling the truth about your current reality. First, identify your greatest area of need. Where can you make the most definitive progress this year? To do this, rate each of the organisational value areas on a scale of 1 to 10, where 10 is wonderful and 1 is lousy. Rate each to see how well you are currently living up to that value when compared to your vision of your preferred future. If you are doing this as a group, have each person describe his or her rating.

Step 3 **Establish priorities**

Use the completed ratings to select one or two areas where you have the greatest opportunity for improvement. Where is your greatest dissonance? In which value area would improvement translate into significant results? Which value area shows the largest gap between your preferred future and your current reality? Select one or two value areas as your priorities.

Step 4 **Develop an action plan**

You must get clear about who will do what and when. Start with brainstorming. Imagine all the possible actions which could move you towards your preferred future in the one or two value areas you have selected as priorities. Be creative here. Do not limit yourself to what you have always done or you will see the same results you've always seen.

After you create a list of possible action steps, group them into categories such as marketing, communications, facilities, employees, and so on. Usually, three to five categories will suffice. Now, go back through each action item in each category. Assign a person to be accountable for that action and determine when that action item will be complete.

Step 5 **Implement the plan**

Your plan has little value until you act on it. Each person must have a clear understanding of his or her individual accountability. If you are a one-person company, you must be clear on how you will accomplish your assigned tasks. This may include blocking off some time each week to concentrate on your action items.

Once or twice a month, review your progress. What is getting done? What is not getting done? Examine action items that are being pushed back. Either break them into smaller, easier tasks or decide explicitly that you are not going to complete a specific action item.

The payback for strategic thinking and planning comes in your ability to withstand change. An enterprise grounded with a clear direction and a plan to get there will have a focus on what is important and the flexibility to respond to new opportunities.

Benefits of Strategic Planning

- Improve your business decisions—you make decisions based on the best information available.
- Enhance your understanding of customers—the greater your understanding of customers, the better your chance to get them to spend more money with you.
- Improve customer relations—this one is simple. If you fully understand your customers, you will be better equipped to supply them with what they need.
- Increase the probability of beating competitors—if you can anticipate their actions, you can counter them.

Visit www.usasbe.org to learn more about strategic planning in a small business.

- Allows you to use resources more effectively— strategic planning helps you plan effectively for their use, optimising the return on your precious resources.

- What is strategic planning? Explain a simple five-step planning process.
- Discuss the benefits of strategic planning.

THE ESSENCE OF BUSINESS ETHICS

Ethics is a branch of philosophy. Its object is the study of both moral and immoral behaviour in order to make well-founded judgements and to arrive at adequate recommendations. A host of inventions, improved business organisations, and worldwide commerce not only changed the way we earn our living, they also radically changed our whole way of life and even modified our ways of thinking, especially by expanding of our perceived needs. These profound changes in our way of life also gave rise to a whole range of practical theories concerning the inner functioning and organisation of business activities; one of these disciplines is business ethics.

Business ethics evaluates and prescribes moral standards that match a specific sphere in modern society: the business environment. Business is now a prominent part of modern society with its own rules and a relatively independent status. The very basis of business ethics refers to an idea of how business fits into modern society as a whole, a social philosophy of business.

Entrepreneurship consists of personal skills as a leader, especially the ability to implement strategic marketing decisions. A highly performing entrepreneur thinks along situationalist lines. He or she does not always see marketing activities as a matter of a competitive struggle, with one side emerging the winner and the other side the loser. More specifically, besides competitive warfare for the survival of the fittest, there are other business games that allow for proper exchange of views and real partnerships. Also, morally involved entrepreneurs have great skills in convincing and motivating interlocutors, by setting a coherent and appealing example. Entrepreneurs can achieve a higher performance by personally integrating moral demands in corporate policies. Here, the term "higher" refers to a balance among three different moral requirements:

1. Meeting corporate goals, especially medium- and long-term profitability.
2. Ethically motivated job satisfaction.
3. The fostering of durable partnerships.

Ethically valid performance is produced by preventing unnecessary harm and by the ability to build constructive and durable partnerships with employees, consumers, and supplies. The corporate mission statement articulates the basic objective of ethical entrepreneurial performance. This mission statement should define the balance between two constituents:

a. The strategic vocation of the corporation; and
b. Its commitment to specific corporate responsibilities.

Box 8.4 Effective Code of Ethics

- *A valid motivation for its introduction* It should insist on important benefits for adopting and complying with the code. An "us too" attitude is not enough.
- *Broad acceptance within the company* Involve representatives from all departments in the process of elaborating the code. The code should be discussed, checked, and redefined before it is finally laid down.
- *Continuous feedback* Difficulties occur during the implementation of the code, and also as norms on how to act in specific situations change. This calls for feedback. Living up to a code is not simply a matter of blindly applying rules; it is part of a process.
- *Verification and control* Any inconsistencies between rules and practice should be disclosed. One method of achieving this is peer discussions. New guidelines should be drawn up if the rules prove inadequate in any way.
- *Integration into a broad company philosophy on corporate services and responsibilities* The set of rules should be part of a wider ethical mission statement. This may involve staff training programme, a company ethical committee, or discussions with external stakeholders.
- *Sanctions and control* Compliance with codes needs enforcement, both positive and negative. In order to become effective, some system of sanctions must exist. Freewheeling permissiveness would only lead to lip service. Many companies do now have severe sanctions against, for example, bribery.

CASE STUDY

Poly Hydron Private Limited, Belgaum, Karnataka

About the Enterprise

Polyhydron Private Limited (PPL) is the flagship company of the **Polyhydron Group of Industries.** Three young, dynamic entrepreneurs, **S.B. Hundre, V.K. Samant,** and **D.S. Chitnis** started a company called **Hyloc Hydrotechnic** in 1974. In the course of time, two more companies were established, namely **Polyhydron Pvt. Ltd.** in 1982 and **Polyhydron Systems Pvt. Ltd.** in 1986 (now known as **Oil Gear Towler Polyhydron Pvt. Ltd.**).

PPL is situated in Machhe Industrial Estate, Belgaum, Karnataka. It manufactures hydraulic radial piston pumps, valves, and accessories. It has an effective stockist network throughout India which markets PPL products. Polyhydron products are priced unbeatably low and PPL has changed the prices only marginally in last 15 years. This strong marketing strategy is maintained through careful implementation of Just in-Time production system, Kan ban system et al. wherein waste elimination is the key. PPL has maintained a compound growth rate of 32.5 %. In the year 2000–01 it made a turnover of Rs 9 crore with an employee strength of 72.

PPL's Mission

"We shall nurture an ethically managed organisation and we shall not exploit our customers, employees, suppliers, government, society, and nature."

PPL's Vision

"We shall create an island of excellence through focus on customer-employee empowerment and continuous improvement."

PPL's Management Philosophy

"To recognise our responsibility as individuals and towards ourselves for future development of a healthy culture.

"To accept the fact that our businesses are no longer private affairs, but they are public enterprises entrusted to us."

"To promote general welfare in the society, respect humanity, and develop people."

PPL's Uniqueness

(a) Management by Soul

PPL is the only hydraulic valve and pump manufacturing company in India which does not have any foreign collaboration. Its "Just-in-Time" production system implementation has borne unimaginable benefits inspite of the non-conducive environment in the country. One of the very few companies in India to practise "ethical management ", it has developed the concept of "business ashrama". What good ethical behaviour comes down to is soul – where you house your values, your purpose in life, including the picture of the kind of person you want to be. Without your **soul** you have nothing to guide you.

The soul, which Suresh B. Hundre, CMD, calls the **"Jiva"** of Polyhydron is deep rooted in culture, and is expressed as a mission statement—**"We will nurture an ethically managed organisation. We will not exploit our customers, employees, suppliers, government, society, and nature."**

(b) Managing with a conscience: you don't have to cheat to win

PPL has adapted by replacing the old "we against them" mentality with a new perception of **"us"** that encourages the growth of profitable relationships with employees, customers, clients, suppliers, and alliance partners. It stimulates, creativity and a daptability to change, promotes excellent service and communication, builds trust, and energises the work force.

There is no security at the gate. The system is fully transparent. The financial information is opened to all stakeholders.

Profit Sharing at PPL

Profits generate funds (taxes) for the government, which in turn serves society and the nation. Profits also provide wages for the employees. But the manner in which the profits are made should be ethical.

Figure 8.2 below, developed by S. B. Hundre, depicts the relation between the goal, means, and the time required to accomplish the goal. Therefore, the goal should be to make now as well as in future, and not just now.

PPL operates under the overall umbrella of ethical management, which guides all the decisions taken by the organisation. Hundre says, **"I will live up to my values and never compromise."**

Polyhydron shares its net profit in the following manner.

Figure 8.2 ■ Organisational goal at PPL

Net value added
(Net value created)

30% with its employees

5% with its shareholders

1% with the community

The balance is utilized for the company's growth.

Innovation at PPL

At PPL, it is innovation that works. The knowledge of employees, training and development, technology knowhow, and the dedication and commitment of Managing Director S. B. Hundre, have not only improved factory efficiency but have also helped discover new, innovative products, for instance, directional control valve in 2002–03, feed and power hand pumps in 2001–02, mono block directional control valve in 2001–02, pilot-operated pressure relief valve in 2001–02, joystick controlled pilot oil unit in 2001–02, cartridge directional control valve in 2001–02, radial piston pumps 11 p.m. 750 bar, and solenoid directional control value.

Quality at PPL

Each employee in PPL is responsible for the management of quality. There is no quality department as quality in Polyhydron is defined as the right of every person. Ethical employees lead to quality work and quality work leads to quality products. The company defines quality as value for money. The availability of products at a reasonable price and at an acceptable quality level are the trademarks of Polyhydron. At PPL, honesty is not a policy, but "the policy". It believes in building quality from the *source*. "Self-inspection is the best inspection" is also the policy at PPL.

PPL's Quality Policy

Polyhydron strives to achieve quality by keeping its rate of improvement higher than the rise in customer expectation.

(1) Each machine is defined as a factory and independent charge is given.

(2) No corruption activities from either side.

(3) Due and full contribution to the ex-chequer.
(4) To improve the knowledge of workers, the company has a well-stocked library.
(5) To maintain good health and hygiene of the workers, gym facilities are provided.
(6) Initiatives are made to create awareness among employees about the benefits of yoga, Vedanta, and so on, and they are encouraged to spend some time for such activities.
(7) To progress as a zero-debt company.
(8) Encourages sports activities by providing sports equipment to the workers.
(9) Encourages BBA and MBA students to undertake projects and promotes industry-institute interaction.
(10) Suitable ideas of the employees are respected and put into practice.
(11) All gifts to the company from suppliers and customers to any official/company are shared among employees through a lottery system.
(12) Due consideration has been given to building a plant layout with maximum natural lighting and ventilation.
(13) Open door system without receptionist or supervisor at factory level.
(14) A cooperative credit society has been established to help workers in their personal endeavours.
(15) Personal loans and advances are extended to employees resolve their financial problems.
(16) Formula-based incentive system of 30:70 among employees and company is established and practised.
(17) To enable customers to get their products early , depots have been established all over the country.
(18) Recruitment of employees through training and induction programme and not through advertisements.
(19) The quality of product is never sacrificed to enhance profit.
(20) Collections are expedited, payments to suppliers are also expedited.

Box 8.5 Code of Ethics

- The company strictly follows the code of ethics that states, *"We at POLYHYDRON can say without hesitation that our management philosophy is what we live by. But the code of ethics is what the company insists every one has to follow even though it means loss to the company. Because there is no greater loss than to lose the respect of the people."*
- *"Each of our employees is responsible for the integrity and the consequences of his own action. The highest standard of honesty, integrity and fairness must be followed by each and every employee while engaging in any actions with customers, competitors, supplier, the public, and other employees."*

Fruits of Ethical Practice at PPL

- *Employees*: Increase in salary, productivity bonus, efficiency, and so on
- *Customers*: (i) Depots close to customer's business houses
  (ii) Quality product at minimum cost and in time
- *Suppliers*: Single supplier, prompt payment and constant assistance
- *Government*: Prompt in paying advance income tax (Won an award for the same)
- *Society*: Liberal donations and continuous financial support to people in need.
- *Fellow entrepreneurs*: Constant effort to propagate the advantages of ethical business practices.

SNAPSHOT

- The very basis of business ethics refers to an idea of how business fits into modern society as a whole: **a social philosophy of business.**
- An effective code of ethics should integrate into a broad philosophy of a company on corporate services and responsibilities and is a part of its mission statement.

Visit www.business-ethics.org to learn more about business ethics and visit www.polyhydron.com to know more about "Temple of Ethics".

Polyhydron is known for its **ethical management**. People from all over India visit the company to interact and understand the systems. It has become a kind of **"pilgrimage centre"** for the corporate world of India. It can be said that managing business ethically is no longer an option in the new millennium. To evolve any business into an ethical one requires tremendous effort and commitment at all the levels in the organisation. This has been proved at **Polyhydron Private Limited, Belgaum.**

DISCUSSION FORUM

- What are business ethics? How can an entrepreneur strike a balance between private interests and moral demands?
- Study the case of Polyhydron Private Limited and discuss in small groups why it is called as the "Temple of Ethics".

SUMMARY

- The organisation life cycle comprises with five stages: start up, expansion, consolidation, revival, and decline. These are explained in terms of three variables: growth, product/market definition, and organisation. As a venture progresses from one stage to the next, conditions change, requiring different decisions for managing growth, developing products and markets, and organising the company.
- Making effective strategic decisions is a theme that occurs throughout the organisational life cycle and the nature of the decisions taken at various stages changes as the company evolves.
- Strategic planning begins with defining the vision and mission of the venture. The mission statement should be evaluated to ensure that it reflects the long-term vision of the entrepreneur.

- Business ethics evaluate and prescribe moral standards that match a specific sphere in modern society: the business environment. Business is now a prominent part of modern society, with its own rules and a relatively independent status. The very basis of business ethics refers to an idea of how business fits into modern society as a whole, a social philosophy of business.

KEY WORDS

- Organisation life cycle
- Start up
- Expansion
- Consolidation
- Revival
- Decline
- Turning the venture around
- Vision
- Mission
- SWOT
- Strategy
- Organisational renewal Cycle
- Creativity
- Stability
- Crisis
- Renewal
- Environmental scan
- Business ethics
- Code of ethics
- Philosophy
- Quality policy

EXERCISES

1. **Project work 8.1:** Divide the class into small group of four to six members. Visit a local SSI. Using the worksheets (8.1 to 8.9) given at the end of the chapter in Appendix 1, assess SWOT of the enterprise.
2. **Activity 8.2:** You are a senior software consultant in your firm's "Knowledge enterprise" which consists of six people with various specialties. As a result of yours and your partner's work the enterprise has been doing well for the last five years. Your boss has identified a business opportunity in the Middle East during a recent visit there and wants to diversify by opening one more enterprise in the Gulf. Your boss has already decided on the individuals for the new office. However, he asks you to select a person from your group to head the new office in the Gulf.

   The person best qualified is your immediate assistant, Rajiv. He is experienced and he has successfully led five software projects. If he were sent to the Gulf a big vacuum would be created in the office here and it would be difficult to replace him. At the same time your partner is interested to send his niece, Geeta, who is a graduate from the local university but has not worked with a knowledge enterprise. If you recommend Rajiv, which creates a vacuum, you would still have problems from Geeta. If you recommend Geeta to go to the Gulf the boss would be happy and you would be rid of her.

   What is your recommendation? Write your recommendation in A4 size paper single line spacing not exceeding two pages.

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WORKSHEET 8.1 REVIEW THE ORGANISATION'S PRESENT SITUATION

What is the current state of the organisation? What are the services, products or programmes? What are the human resources? Financial standing? Plans for the future? The entire team has to ask questions to bring their perspective of the current situation into agreement.

Present Situation Assessment

1. What is the current state of the organisation?
2. What is your track record?
3. What is the organisational mission?
4. What are its major products/services/programmes?
5. What are the core competencies of this organisation?
6. What is its financial standing?
7. What are the plans for the future?

WORKSHEET 8.2 HISTORY OF THE ORGANISATION

Understanding the history of the organisation is very important to help it chart its future. It is often helpful to have people who have been in the organisation the longest make a presentation about how the organisation started, its original mission and services or products. What were the significant events since then—major changes, successes, failures—and what have been the values that have persisted over time? People do not move towards the future without honouring the past.

The Organisation's History

1. How has this organisation developed over time?
2. What are the changes on strategy?
3. What are the changes in focus?
4. What are the products/services/programmes?
5. Who are the customers?
6. What is the organisational structure?
7. Any changes in site/location/resources?

WORKSHEET 8.3 ESSENCE OF FOUNDERS

How an organisation begins often gives it a deep sense of purpose. Organisations that have endured often sprout from a philosophical well that when tapped provides nourishment for the continued challenges that the organisation faces. What was the reason the organisation was founded? What were the founders like?

Essence of the Founders

1. Who were the founders?
2. What were the founding myths?

3. Why did this organisation come into being?
4. What was the spirit of the organisation?

WORKSHEET 8.4 ASSESS YOUR STRENGTHS AND WEAKNESSES

Strengths and weaknesses are essentially internal to the organisation and relate to matters concerning resources, programmes, and organisation in key areas such as finance, marketing, operation, and human resources.

Internal Resources	Strong Weakness	Slight Weakness	Neutral	Slight Strength	Strong Strength
Financial Resources					
Overall Performance					
Ability to Raise Capital					
Cash Position					
Marketing Resources					
Market Performance					
Knowledge of Markets					
Location					
Product					
Advertising and Promotion					
Price					
Image					
Distribution					
Operational Resources					
Production Facilities					
Access to Suppliers					
Inventory Control					
Quality Control					

(Contd.)

(Contd.)

Organisational Structure					
Human Resources					
Number of Employees					
Relevance of skills					
Morale					
Compensation					

Assess Opportunities and Threats

Assess opportunities and threats by conducting an environmental scan and customer competition analysis. What are the major outside forces that will make a difference in whether or not you succeed? These typically include customers, stakeholders, competitors and strategic alliances, and the social, political, economic, and technological forces that influence the business. This involves extensive data gathering from questionnaires, public focus groups, and interviews with key experts, and literature searches. Opportunities and threats are external to the organisation and can exist or develop in the areas such as size & segmentation, growth pattern and maturity, international dimensions, relative attractiveness of segments, new technologies, and so on.

WORKSHEET 8.5 CONDUCT AN ENVIRONMENTAL SCAN

From an environmental perspective, what are the demographic, social, and cultural trends that will affect your mission and vision? Are there changes in political leadership, legislation, or global shifts that may affect your business? What are the technological innovations and economic pressures that may affect what you do?

Environmental Scan

1. Demographic shifts: ______
2. Social trends: ______
3. Cultural trends: ______
4. Political leadership: ______
5. Legislation: ______
6. Global shifts: ______
7. Technological innovations: ______
8. Economic pressures: ______

WORKSHEET 8.6 CONDUCT CUSTOMER'S AND COMPETITION ANALYSIS

Customers play a key role in this analysis. What do your current customers tell you about your service/products? What do those who are not your customers say? Strategic alliances and competitors can teach you a lot about opportunities and threats. Who really is your competitor? What are the strengths and weaknesses of the competition? In what ways are they unique?

Customers and Competition Analysis

1. Current customers: ______________________________
   ____
2. What do your current customers tell you about your service/products? ______________________________
   ____
3. What do those who are not your customers say? ______________________________
   ____
4. Who are your key strategic alliances? ______________________________
   ____
5. Who are your competitors? ______________________________
   ____
6. How are they unique? ______________________________
   ____

WORKSHEET 8.7 SCALE FOR SWOT

Each SWOT can be rated and plotted on a graph for comparison like a histogram. This can help in focusing on definite strategies for each S, W, O, and T.

Scale for Strength and Opportunity

S. No.	Weightage	Description
1	Less than 20%	Strength is not in the desired direction of the business
2	21% to 40%	Everyone has it
3	41% to 60%	Strength is in the desired direction of the business
4	61% to 80%	Strength can make a differentiator
5	81% to 100%	If used can turn out the business

Scale for Weakness and Threats

S. No.	Weightage	Description
1	Less than 20%	Not affect the business
2	21% to 40%	Everyone has it but needs to be addressed
3	41% to 60%	If not addressed can deteriorate the performance
4	61% to 80%	If not addressed can ruin the business in the long run
5	81% to 100%	If not addressed can ruin the business in the immediate future

Scale for Rating SWOT

Rating	Description
1	Not a real SWOT
2	Low impact
3	Medium impact
4	High impact
5	Differentiator/Destroyer

WORKSHEET 8.8 ASSESS SWOT

Note: Kindly fill up the key word and description of Strengths, Weaknesses, Opportunities, and Threats only.

Strengths						Weaknesses					
Sr.	Key word	Description	Weight	Rating	Score	Sr.	Key word	Description	Weight	Rating	Score

Opportunities						Threats					
Sr.	Key word	Description	Weight	Rating	Total	Sr.	Key word	Description	Weight	Rating	Total

WORKSHEET 8.9 CRITICAL ISSUES OR CHOICES THAT YOU FACE REGARDING THE FUTURE

The identification of four critical issues will help in the envisioning process. It may be helpful to state each issue in the form of a question that can be answered. For example: How can our focus on past technical capability be used to launch current efforts?

Critical Issues of the Future

1. ______________________________
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2. ______________________________
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3. ______________________________
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4. ______________________________
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5. ______________________________
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Financial Management in Small Business

9

An entrepreneur in Karnataka declaring the financial performance of his small business enterprise.

"Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted."

—Albert Einstein

Learning Objectives

- ➲ Understand the importance of financial management
- ➲ Learn the functions of financial management
- ➲ Explain working capital management and various working capital schemes.
- ➲ Learn book keeping and accounting policies
- ➲ Understand financial statements—balance sheet, profit and loss account, cash flow statement
- ➲ Understand the meaning, purpose, and significance of financial ratio analysis
- ➲ Get familiar with commonly applied methods of depreciation, accrual, and prepayment adjustment

IMPORTANCE OF FINANCIAL MANAGEMENT

Financial management is a managerial activity concerning the finances of the firm. It deals with planning, control, and management of financial resources of the firm. It is not enough to only raise the finance for industrial activity; it is necessary to manage it properly as well. Financial management is assuming importance in the modern context what with the most crucial decisions of the firm being those which relate to finance. A small industries unit has to undertake four important activities as a part of its business: (1) Finance, (2) Production, (3) Marketing, and (4) Human Resource Management.

There exists an inseparable relationship between finance function on the one hand and the production, marketing and other functions on the other. Finance is at the root of any business activity. Therefore, there is a need to properly manage it.

Functions of Financial Management

Financial management involves two types of functions: (i) Managerial finance functions and (ii) Routine finance functions.

Managerial finance functions require skilful planning, control, and execution of financial activities. Routine finance functions, on the other hand, do not require great managerial ability to be carried out. They are clerical in nature and incidental to the effective handling of the managerial finance functions.

Managerial finance functions for small industries are as follows.

(1) Estimating financial requirement
(2) Identifying sources of finance
(3) Raising of finance
(4) Proper use of finance
(5) Control of finance

(1) ***Estimating financial requirement*****:** Before starting an industrial unit, it is necessary that an entrepreneur estimate its financial requirement. He should scientifically calculate the fixed capital and working capital requirements.

The project report must be prepared with the help of a finance expert or a consultant.

(2) ***Identifying sources of finance*:** Once the total financial requirement is known, the entrepreneur should identify the sources from which finance can be raised. There are many sources open to a small industrial unit such as (i) personal funds, (ii) funds from friends, (iii) banks, (iv) financial institutions, and (v) public deposits.

After a careful analysis the enterpreneur should decide from which source he can raise funds.

(3) ***Raising of finance*:** Raising of finance does not mean mere collection of funds. It has four important dimensions: (i) Right source, (ii) Time schedule, (iii) Cost, and (iv) Adequacy.

The raising of finance should be adequate, at the right time, from a power source, and at the right price or cost. Finance raised should be adequate and sufficient. This helps in the smooth running of business.

An entrepreneur should select the right type of source to raise finance from. This requires a lot of thought. The projection of time, that is, when the finance is needed, at what stage and so on should also be given consideration. All the finance is not required on the first day. One can phase out the time for collecting funds. Funds should be collected as and when required. This will reduce the cost (interest charges). Finance should be so arranged that it becomes available at the proper time, neither too early nor late. The cost aspect should also be considered while raising funds.

(4) ***Proper use of finance*:** Finance raised for the purpose of business activity should be carefully used. The project report prepared by the entrepreneur with the help of experts indicates clearly how the finance collected should be used. Financial discipline has to be observed to keep the enterprise in good health. Money should not be used for any purpose other than purely business activity. Many units become sick because of lack of proper use of finance.

(5) ***Control of finance*:** Control relates to establishing proper procedures and systems to check the financial activity of the business enterprise. A business should be carried out as planned in the project report. Income and expenditure should be kept under control. A review should be made periodically to know whether the business is being carried out on proper lines or not.

SNAPSHOT

Financial Management involves two types of functions:

- Managerial finance functions
- Routine finance functions

(I) *Managerial finance functions for small industries are as given below.*

- Estimating financial requirement
- Identifying sources of finance
- Raising of finance
- Proper use of finance
- Control of finance

(II) *Routine finance functions are listed below.*

- Supervision of cash receipts and payments
- Safeguarding cash balances
- Record keeping (i.e. accounting)
- Custody and safeguarding of securities, insurance policies, and other important documents
- Taking care of mechanical details of outside finance
- Regular return of borrowed funds

Routine finance is incidental to the effective execution of the managerial finance functions. They involve a lot of paper work and time. They deal with procedural aspects. Important routine finance functions are listed below.

(1) Supervision of cash receipts and payments
(2) Safeguarding cash balances
(3) Record keeping (accounting)
(4) Custody and safeguarding of securities, insurance policies, and other important documents
(5) Taking care of mechanical details of outside finance
(6) Regular return of borrowed funds.

Financial management at the firm level also requires proper management of fixed assets, working capital, and costs. Fixed assets themselves cannot generate profits. Idle fixed assets do not generate profits. They should be properly used and managed. Repairs, maintenance, replacement, and revaluation of assets needs skilful management.

Visit www.entrepreneur.com to learn about financial management in small business.

The management of working capital has become an important activity. The proper management of capital ensures good health for business. It is also essential that an entrepreneur should make continuous cost analysis and try to minimise costs by evolving effective methods.

"Do not borrow funds which you cannot repay. That harms your reputation and business."

"Financial discipline is of utmost importance for business and industry."

DISCUSSION FORUM

- Discuss the importance of financial management in a small business.
- Explain the functions of financial management.

WORKING CAPITAL MANAGEMENT

Entrepreneurial inefficiency with regard to managing working capital is one of the darkest areas of management of small-scale enterprises. As a result, a large number of units fail to survive the initial

enthusiasm. This is true both in India and abroad. In the context of finance for the small-scale industry, it would not be out of place if we make certain observations based on empirical evidence.

1. Lack of production planning has assumed the nature of a characteristic in the small sector with the result that small units do not care to maintain delivery schedules. This leads to loss of customers and an increased need for working capital.

2. Apart from managerial incompetence, ignoring standard accounting procedures catch the entrepreneurs unaware of the cash flow positions.
3. Severity of competition necessitates lowering of prices and credit sales for longer periods whereas being small, the units get only limited credit while buying new materials from the suppliers. Small and retail purchases also means higher purhase prices.

On the demand side, the nature of a production organisation is such that the need for working capital is relatively larger in relation to its fixed capital. The supply of internal and external sources of funds is constrained. Some of the internal constraints are that in general it is not possible to visualise a very significant increase in sales over a short period; small units do not have any control over market prices; and profit margins are generally lower so that nothing is left to plough back into the unit. The external constraints include institutional insistence of margins, securities, and regularity of payments.

The need for working capital will depend on the input stock, production time, output inventory, credit sales, delay in receipt over normal credit period, and trading conventions. In addition, the share of raw materials in the total value of output, operating expenses such as raw materials, wages-salaries, factory overheads, provision for depreciation and advance tax payments also influence working capital. The level of working capital is affected by lack of internal resources, low productivity, and diversion of funds to other uses.

Despite the fact that credit to the small sector is brought under "priority", and the Credit Guarantee Corporation of India and Industrial Development Banks of India guarantee schemes, finance is still a major constraint for the SSI sector in India. The present policy is to extend credit on the basis of the purpose rather than security. The policy of the government is to see that "no worthwhile scheme of small or village industries is given up for want of credit". The reality, however, does not conform to the rosy picture projected by lending institutions.

A study by the Reserve Bank of India revealed that a large number of managers at the branch level were not fully aware of the various schemes available to the small sector. The approach towards the small sector is negative arising out of a fear that the probability of loan not being repaid is high. Therefore, officers at the branch level would not like to be "accountable" to the higher authorities for overdues. The applications are, therefore, rejected or delayed to frustrate the borrower.

Owing to the poor information system, a large number of small entrepreneurs are not fully aware of the various credit schemes available to them. It is also not known that though loans are time bound, they can be rescheduled in case of repayment problems. The entrepreneurs fear that a failure or delay in repayment will invite interference from the bank.

The entrepreneurs in the small sector are very critical about the existing procedures, which are complex, costly, and, at times, confusing. The forms have not been drawn up keeping the general level and type of education in the country. Very often a small entrepreneur finds it difficult to meet the proforma requirements of the bank. At the branch level, the "accountability"-fearing conservative officers consider the incomplete form, inadequate information or documents as sufficient grounds for rejecting the loan application irrespective of the "purpose". This may provide room for emergence of corruption in financial institutions.

Banks insist that the borrower maintain proper books of accounts and submit monthly, quarterly, and annual reports. Small entrepreneurs, particularly proprietary organisations, would find this inconvenient and costly. Though third party guarantee is not to be insisted upon in case of small loans, it is almost compulsory. Many small entrepreneurs who take up self-employment for the sake of its independence find this dependence along with the display of bank's name board prominently as irritants. These are some of the reasons why indigenous sources of finance continue to be active in the small-scale sector even today.

Apart from managerial incompetence, ignorance about standard accounting procedures find the entrepreneurs unaware of the cash flow the positions. The severity of competition necessitates a lowering of prices and credit sales for abnormally longer periods whereas being small, the units get only limited credit while buying. As a result, a study found that the working capital requirements in the small sector are 43 per cent of sales against only 27 per cent for large units.

It is highly desirable for every entrepreneur to undergo, at least, a minimum competency training in the management of working capital. This is all the more important in the context of State patronage and special subsides for promoting entrepreneurship among technically qualified persons. Many people enter the small-scale sector on the basis of mere general observations and faulty motivations. The fact that one is able to deliver the goods does not mean that the other can do the same. Decisions must be based on specific facts than general notions. It may be noted that no theory can sell a product or manage an enterprise.

Entrepreneurial development programmes should be undertaken only by those who have aptitude, interest, and capacity for running small units. An elementary course could be introduced as an applied component subject at the three-year degree level in colleges for spotting talent. Those who are motivated and confident should be drawn to Entrepreneur Developent Institute for intensive courses. The institute could also function as a link among trained entrepreneurs and government agencies and financial institutions for setting up small units.

Estimating Working Capital – A Simplified Approach

A simple method of estimating the need for working capital is based on the average "manufacturing cycle" presented in Figure 9.1.

By manufacturing cycle we mean the total process. It begins with the possession of cash/credit to buy inputs. The raw materials are processed into finished goods. The end product is sold in the market. A part of it is directly sold for cash and the remaining on credit, realisable after a stipulated period of time. When it is realised, the cash returns to the manufacturer. Thus the cash, which was spent by the manufacturer, comes back to him after a lapse of time. It is, therefore, called a cycle. The cycle will differ from industry to industry.

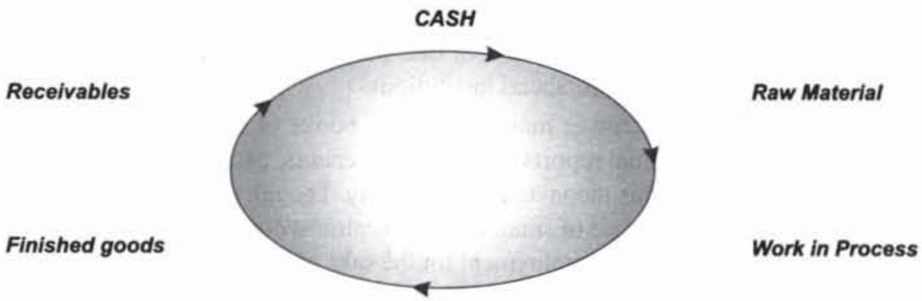

Figure 9.1 ■ Working capital cycle

Illustration 1

Assume that production is 100,000 units per annum

Total production cost	Rs 90,000 p.a.
One manufacturing cycle	120 days (that is, three cycles a year)
Working capital needed	Total Cost/Manufacturing Cycle
	= Rs 90,000/3 = Rs 30,000

The minimum working capital requirement of the firm is Rs 30,000.

Illustration 2

This is known as an accounting model and is based on the day-to-day operational behaviour of the enterprise in particular and the industry in general.

The working is based on the following assumptions.

(a) Raw material requirements 3 months' consumption
(b) Process period 1 month
(c) Finished goods stock 1 month
(d) Credit by suppliers is 1 month
(e) Credit to debtors 2 months
(f) Total production cost Rs 10,000 (includes Rs 1000 unpaid)
(g) Raw material Rs 6,000 (that is, 60 per cent of production cost)
(h) Manufacturing cash expenses Rs 3,000
(i) Margin money

(i) Raw material	20%
(ii) Work in progress	33.33%
(iii) Finished goods	20%
(iv) Debtors	20%

Based on the assumptions, the enterprise in question would need a total working capital of Rs 49,500 at any given point of time. Given the margin policy of banks, an entrepreneur will have to find Rs 11,500 from his own sources. The bank, if satisfied with the proposal, will lend a maximum of Rs 38000 under various schemes especially available for the small-scale sector.

EXIHIBIT 9.1 Calculation of Working Capital

Details	*Period (month)*	*Cost × Period (month)*	*Total WC*	*Margin (Rs)*	*Bank Finance*
RM	3	Rs 6000 × 3	18000	3600	14400
WIP	1	(RM) 6000 × 1) + (CE) 3000 × .5)	7500	2500	5000
FG	1	EM + CE 9000 × 1	9000	1800	7200
Debtors	2	at cost 9000 × 2	18000	3600	14400
Cash	–	–	3000	–	3000
			55500	11500	44000
Creditors		6000 × 1	(–) 6000	–	(–) 6000
Total			49500	11500	38000

Note: RM Raw Materials WIP Work in Progress CE Cash Expense FG Finished Goods WC Working Capital

Valuation of Stock-in-Trade

As the figure of closing stock would materially affect the trading results, it becomes necessary to see that the greatest possible care and trouble are taken to include this item at a fair and correct value. For this reason, inventories of unsold goods on hand at the close of each trading period should be prepared most carefully under the strict supervision of some responsible person. All quantities as entered on the stock sheet and the rates should be rechecked by competent and reliable persons. Some independent assistants should check even the extensions and calculations made by one set of clerks.

The basis of valuation generally adopted is the actual cost price. If, however, any part of the stock is damaged or shop-soiled or has become obsolete or not saleable, due allowance will have to be made for such depreciation in value. Unsold stock should never be valued at the selling price, if that price exceeds the cost price. If the unsold goods are valued at selling price, the result would anticipate a profit upon them, which may or may not be realised. In other words, the profit on goods should only be brought into account when they are actually sold and delivered.

If, however, the market price is less than the cost price, then a loss has evidently been incurred, since the goods can only be sold at a loss. Under such a circumstance, they should be valued at the market price.

Bear in mind that the figure of closing stock has to be shown on the credit side of the trading account in order to ascertain the gross profit. Thus any over-valuation or under valuation of this item will show results, at once misleading and false. The following principles may be laid down as sound in determining the value of the stock of unsold goods on hand.

1. Profit on goods is deemed to have been earned only when the goods are actually sold.
2. No profit should be anticipated and taken credit for until it is earned.
3. If there is any chance of loss likely to arise, such anticipated loss must be immediately provided for.

In view of the above rules, it follows that, the stock of unsold goods should be always valued at cost price or market price, whichever is lower.

Cost Formulas

Determination of the value of inventories requires the use of cost formulas to be applied to purchases made at different prices/production achieved in lots at different costs over a period. A variety of cost formulas, or cost flow assumptions as they are commonly known, are used to determine the value of stock in such cases. These are given below.

1. First-in First-out (FIFO)
2. Last-in First-out (LIFO)
3. Weighted Average Cost (WAC)

> **SNAPSHOT**
>
> A simple method of estimating the working capital is based on the "average manufacturing cycle".
> - The cost formulas used for the valuation of stock are
>   (a) FIFO, (b) LIFO, and (c) WAC
> - Some of the important ratios used for managing working capital are
>   (a) Debtor's turnover ratio; (b) Creditor's velocity ratio; (c) Stock turnover ratio; (d) Current ratio; and (e) Stock-working capital ratio.

FIFO As per the FIFO formula, it is assumed that the items of inventory which were purchased or produced first are sold or consumed first. Consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced. This formula usually assigns higher value to inventories since recent purchases/production are usually characterised by higher prices/costs.

LIFO As per the LIFO formula, it is assumed that the items of inventory which were purchased or produced last are sold or consumed first. Consequently, the items remaining in inventory at the end of the period are those purchased or produced the earliest. This formula usually assigns the lowest value to inventories since the earliest purchases/production are usually characterised by lower prices/costs. The formula provides a big relief to business during periods of inflation.

WAC As per the WAC formula, the cost of each item is determined on the basis of the weighted average of the cost of similar items at the beginning of the period and the costs of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the enterprise. This formula usually assigns lower value to inventories as compared to FIFO.

The revised standard issued by the Institute of Chartered Accountants of India (ICAI) recognises FIFO and WAC, not LIFO.

Working capital management will be easier in case entrepreneurs are familiar with some important financial ratios.

1. **Debtor's Turnover Ratio**

   (Debtors + Bills receivable)/(Net credit sales) × 360 days

   This ratio reveals how many days credit is outstanding by debtors. When credit is allowed to buyers, they are expected to pay the money within the specified time limit allotted to them. During this period, the cash is blocked for debtors. The ratio shows, on an average, the time taken for the recovery of money from buyers. It can be compared with the standard time allotted and any deviation reveals the excess or deficit, as the case may be, in terms of time needed for recovering blocked funds. Fewer the days, the better it is for the firm.

2. **Creditors' Velocity Ratio**

   (Creditors + Bills payable)/(Net credit purchases) × 360 days

   As in the case of credit sales, while purchasing raw materials, a supplier allows a credit period to the buyer who made the payment within a specified time. Creditors' velocity ratio states that the rate at which payment is to be made from time to time, which helps to know the net cash flow.

3. **Stock Turnover Ratio**

   (Cost of goods sold + Average stock holding) = (Selling price gross profit)/(Opening stock + Closing stock)

   This ratio specifies the rate at which the stock is turned over. It shows the marketability of a product. The rate at which stocks are sold helps to analyse the profitability position of a concern. It helps to formulate production policy.

4. **Current Ratio**

   (Current assets/Current liabilities)

   This ratio shows the funds available with the firm in terms of current assets to meet the current liabilities. It reveals the firm's solvency short-term financial strength, and also whether it is over capitalised or exposed to over trading.

   Though 2:1 is considered to be the ideal current ratio, the composition of current assets is equally important. If the majority of current assets are in the form of stock, which is not easily realisable, even with a 2:1 current ratio, the unit will face severe liquidity problems. Therefore, it is the quality of the ratio rather than the ratio per se that is important.

5. **Stock-Working Capital Ratio**

   Closing stock/(Current assets – Current liabilities)

   This ratio is worked out to know the position of working capital vis-a-vis raw materials, inventories, work-in-progress and so on. Normally, the raw material cost constitutes around 60 per cent of the total cost of production. This brings forth sufficient liquidity to invest in the purchases and finished goods.

Most of these ratios have been standardised in terms of normative values based on historical experience. Any deviation from such values indicates inefficient management of funds.

Working Capital Schemes

Some of the working capital schemes available with most scheduled banks, particularly the State Bank of India, are listed below.

1. Professionals and Self-employed Scheme: Margin is 25 per cent. No ceiling. Interest is 15 per cent and repayment renewal every year.

2. Small-scale Industries Liberalised Scheme: Margin is 20 to 25 per cent. The loan is need based and the interest works out to 13 to 16.5per cent. Renewable every year.

Visit www.planware.org for improving skills on working capital management.

3. Self-employment to Educated Unemployed Youth: Available to youth in the 18 to 35 years age group with SSC or equivalent qualification and family income below Rs 10,000 p.a. No margin will be insisted on. Maximum amount available is Rs 35,000. Interest rate is 10 to 12 per cent. Renewable every year.
4. Small Business Finance: Margin is 20 to 25 per cent. Loan available upto Rs 1 lakh, which carries interest ranging between 11.5 per cent and 15 per cent p.a. and is renewable every year.
5. Entrepreneur Scheme: It is available to technically qualified persons and carries an interest ranging between 12.5 and 14.5 per cent. Renewable every year.

DISCUSSION FORUM

- Discuss the importance of working capital in small business.
- Explain the cost formulas used for valuation of stock.
- Name the important ratios used for working capital management.

ACCOUNTING AND BOOK KEEPING

The Accounting Process

The process that leads to the measurement of financial performance and position of an enterprise passes through the following stages.

1. **Documentation** of business transactions that are capable of being expressed in terms of money, by way of what is known as ***a voucher.*** A business enterprise carries out a number of activities and executes a number of transactions that could relate to purchase, sale receipts and payments, and so on.
2. **Recording** of vouchers in a daybook is called a ***journal.*** A daybook is the book which records transactions chronologically on a daily basis; hence the term.
3. **Classifying** the transactions so recorded by their nature, for example, putting all purchase transactions at one place chronologically so as to enable an understanding of the total build up and effect of that particular activity. This is done through a book called a ledger.
4. **Summarising** the transactions so classified to understand and appreciate the total build up and effect of various activities. This is done through a statement called the ***trial balance.*** This document provides the net effect of all transactions, by their nature, carried out by the enterprise during a particular period.

5. **Bifurcating** the trial balance into ***profit and loss account*** and ***balance sheet*** to measure the financial performance and position, respectively, of the enterprise.

SNAPSHOT

- The various stages in accounting process are: documentation, recording, classifying, summarising, and bifurcation.
- The important books to be maintained by a SSI are: purchase book, sales book, cash book, journal, and ledger.

Invariably, small entrepreneurs do not keep proper and regular books of account, which makes it difficult for them to prepare a financial statement showing the results of the business operation at the end of the year. It is always advisable to keep a proper book of account in double entry system (where for each transaction, debit is always equal to credit). It will help businessman not only in preparing various statements showing profit or loss for the business but also for purposes of taxation and submission to financial institutions and government when the enterprise has long-turn growth prospects.

Types of Books of Accounts

Books of accounts may be broadly divided into two.

(1) Book of prime entry: All transactions of the enterprise are recorded first in the book of prime entry.

(2) Ledger: All transactions entered in the book of prime entry are transferred under respective heads in the ledger. The ledger contains separate heads such as Salary Account, Customer Account, Suppliers Accounts, and so on.

Though not essential for a small-scale unit, it is desirable to maintain the following books in a business organization.

(1) Purchase book: Records all purchases of goods on credit.

(2) Sales book: Records all sales of goods on credit.

(3) Purchase return book: Records return of goods to suppliers.

(4) Sales return book: Records return of goods by customers.

(5) Cash book: Records cash and bank transactions.

(6) Petty cash book: records all petty expenses.

(7) Bills receivable book: Records "bills receivable" transactions.

(8) Bills payable book: Records "bills payable" transaction.

(9) Journal: Records other transactions which do not find a place in books of accounts mentioned above.

It may not be necessary for a small-scale unit to maintain all the books of accounts given above. However, the following books are essential.

(a) Purchase book

(b) Sales book

(c) Cash book

(d) Journal

(e) Ledger

All petty expenses can be recorded through a cash book and purchase/sales returns; bills receivable/ payable transactions can be recorded through the journal.

Specimens of Essential Books

a. Purchase Book

EXHIBIT 9.2 Purchase Book

Date 1	Name of Supplier 2	LF 3	Description of Goods 4	Bills Nos. 5	Amount (Rs) 6	Remarks 7

Note: LF Ledger Folio

When a purchase is made, enter the date in Col. 1, the name of the supplier in Col. 2, details of goods bought in Col. 4, the bill number in Col. 5, and the amount of the bill in Col. 6. Col. 7 is meant for remarks such as the due date and mode of payment to be made and so on. As each item will be ultimately transferred to the ledger for drawing trading, profit and loss accounts, balance sheet and so on. The ledger page to which it is transferred could be entered in Col. 3 of the purchase book. A random check of Col. 3 will reveal whether any item is omitted from the profit and loss account or not. This also helps auditing. The same approach may be used to make entries in the sales book.

b. Sales Book

EXHIBIT 9.3 Sales Book

Date 1	Name of Customer 2	LF 3	Description of Goods 4	Inv. Nos. 5	Amount (Rs) 6	Remarks 7

c. Cash Book

EXHIBIT 9.4 Cash Book

Receipts Side					Payments Side				
Date 1	Particular 2	LF 3	Cash 4	Bank 5	Date 6	Particular 7	LF 8	Cash 9	Bank 10

The cashbook has two sides–1 receipts and payments. All cash transactions are entered in the cash book. If any item is sold directly for cash, it will be written on the receipt side, as cash will be received. In case a payment is made in cash, it will go into the payment side. An additional column for noting the voucher numbers can also be added to the cash book for denoting the serial number of vouchers for accounting convenience. Otherwise, the voucher numbers are written along with the particulars. All cash deposits to and withdrawal from banks will also be entered in the cash book.

d. Journal

EXHIBIT 9.5 Journal

Date 1	*Particulars* 2	*LF* 3	*Debit* 4	*Credit* 5

E. Ledger

EXHIBIT 9.6 Ledger

Debit Side				*Credit Side*			
Date 1	*Particular* 2	*Folio* 3	*Amount* 4	*Date* 5	*Particular* 6	*Folio* 7	*Amount* 8

Note: 1. "LF" in books of prime entry stands for Ledger Folio. Every transaction is transferred from the books of prime entry to the respective accounts in the ledger. The page number of the ledger on which a particular account is transferred is the ledger folio.

2. In the ledger "folio" means the page number of the book of prime entry from which the particular account is transferred to the ledger.

The ledger is a book of secondary entries. All entries in the ledger are transferred from one or the other book of prime entries. The ledger compartmentalises accounts into different prominent heads of receipts and payments. As a result, all statements of accounts are drawn from the ledger.

At the end of the accounting year, all ledger accounts are balanced and a list of balances is prepared, known as the trial balance. In most cases, there may be a difference between the bank balance shown by the cash book and the bank pass book due to reasons, among others, such as cheque issued/deposited before the year but not presented/cleared before the end of the year, and so on. Therefore a bank reconciliation statement is prepared to reconcile the difference between the balances in the cash and bank pass books.

After preparing the trial balance, final accounts showing operational results for the year are prepared. These are divided into two statements.

(1) Trading and profit and loss account: It shows the profit and loss of the business for the year. These accounts represent a systematic enumeration of receipts on the one hand and payments or provisions on the other. The nature of balance between the two sides will reveal profit or loss.

(2) Balance sheet: It shows the values of liabilities and assets of the enterprise as on the last date of the year for which it is drawn.

In the subsequent year, all previous net balance sheet items, that is, liabilities and assets, are transferred to the corresponding new ledger sheets and then transactions of the new financial year are recorded. This provides continuity in operational results in addition to revealing changes in the net worth of the enterprise.

For the purpose of taxation, entrepreneurs are advised to maintain the following additional documents: (a) receipts, (b) payment vouchers, and (c) stock statements.

> Visit www.icai.org to learn more about accounting procedure

It is not necessary that one should be a qualified accountant to maintain proper books of accounts. The fundamentals of accounting can be learned through books or by attending refresher courses. It is desirable to have a qualified consultant for periodic help and advice. Maintenance of proper books of accounts is like "a stitch in time" as it will save the entrepreneurs from many a difficult situation. It will also improve operational efficiency of the unit.

Having prepared the trial balance, it is now possible to start preparing the financial statements: the profit and loss account and the balance sheet. The balance sheet, however, is a "moment-in-time" document which will show all that a business owns (its assets) and the sources of funding for those assets (its liabilitv)

DISCUSSION FORUM

- Explain the accounting process. What purpose does this process serve?
- What is the significance of the following in measuring the financial position of an enterprise? ▪ Voucher ▪ Journal ▪ Ledger ▪ Trial balance
- Name the important types of books of accounts.

FINANCIAL STATEMENTS

Financial statements are the most important part of financial reporting. They are no longer meant for just the promoters or owners of an enterprise. Based on this financial information, a business formulates its strategies for revenue enhancement, cost economies, efficiency and improvements, restructuring of its operations and further expansion/diversification for creating and enhancing the wealth of its stakeholders.

SNAPSHOT

Components of Financial Statements

- Balance sheet
- Profit and loss account or income statement
- Cash flow statement

A complete set of financial statements normally comprises:

1. a balance sheet;
2. a profit and loss account or income statement; and
3. a cash flow statement.

Balance Sheet

A balance sheet shows the financial status of a business at any given moment in time. It shows the items which are owned by the business, its assets, and sets these off against a list of claims on these assets by those who provided funds to buy those assets, and its liabilities. The balance sheet is, therefore, akin to a photograph of the financial state of the business showing, on the one hand, what the business has and, on the other, where the money came from to acquire those assets. The balance sheet will always balance. This is because of the dual aspect rule and the fact that every debit has a credit. If a balance sheet does not balance, then an error has been made in recording the fundamental dual effect of transactions made by the business.

Features of balance sheet

1. Prepared as on a given date
2. Comparative position
3. Vertically drawn—horizontal form out of fashion
4. Grouping and sub-grouping of assets and liabilities
5. Details in schedules and notes to the accounts
6. Matching of assets and liabilities
7. Signed by the person who prepares it and auditors

Various accounts of balance sheet

Assets (Application of Funds)

Assets are things of value acquired by a business at some cost to the business. The balance sheet does not simply list those assets but displays them in a logical order by subtotaling fixed assets (or long-term assets) and current assets (or short-term assets). Conventionally, the distinction between fixed and current assets has been one year. Thus, if the asset is expected to remain in the business in an unaltered form for more than one year, it is classed as a fixed asset; if not, it is classed as a current asset.

***Fixed Assets*:** The permanent assets which a firm could have are fairly common to almost all businesses/companies and would normally be classified as below.

- Land and buildings
- Plant, machinery, and equipment
- Fixtures and fittings
- Motor vehicles
- Investments

Expenditure on acquiring such assets does not appear in the profit and loss account; it appears in the balance sheet alone.

***Current Assets*:** The classification of current assets is common to most businesses and would appear as below.

- Stock
- Work-in-progress
- Finished goods
- Debtors (people who owe the business money)
- Bank
- Cash

The order in which current assets (as well as fixed assets) appear in the balance sheet is said to be in the reverse order of liquidity, that is, the most permanent comes first, and the asset which is closet to being turned into cash comes last.

The above distinction between fixed and current assets need not always hold true. For example, trucks would normally be considered to be fixed assets except in an enterprise whose business is to sell trucks. In such a case, any trucks it has would be more properly classified as its stock, that is, as a current asset.

A more useful distinction, therefore, may be that fixed assets are those which are acquired to enable a business to function on a long-term basis, whereas current assets allow the business to function on a day-to-day basis and are the result of everyday transactions.

Liabilities (Sources of Funds)

Liabilities should not be regarded as debts (although they frequently are) but as sources of finance where the money came from to buy the enterprise's assets. As for assets, liabilities do not appear as a simple list in the balance sheet but are distinguished between long-term and short-term liabilities (or current liabilities). The general one-year rule applies to separate them.

***Current Liabilities*:** Current liabilities are generally debts, which a business is legally bound to repay within one year. The normal current liabilities to be expected in a balance sheet are given below.

- Trade creditors
- Taxation provision
- Short-term loans
- Dividend payable (for limited companies only)
- Bank overdrafts

Included in trade creditors are all suppliers of goods and services who are awaiting payment on the date of the balance sheet and could include any cost which a business is likely to incur.

***Long-term Liabilities*:** These are the sources of finance which have been supplied on a long-term basis and are not due for repayment in less than one year. It is normal to see such liabilities categorised into those supplied by owner's capital and those supplied by other parties such as banks.

The owner's capital is normally shown thus.

Capital Introduced (or Opening Balance) Plus Current Year's Profit Less Personal Drawings

Note that it is normal, except in the case of limited companies, to show the personal drawings, or personal wages, of the owners as a deduction from capital, since theoretically, all money in a business belongs to them and they can, if they wish, take everything out, not just what they have decided to take.

How does a balance sheet look?

After picking out the debit and credit balances which would go into the profit and loss account, the trial balance will be left with items of debit and credit balances which will be taken over by the balance sheet.

Step 1

- The debit balances that go into the balance will be listed under assets.
- The credit balances that go into the balance will be listed under liabilities.

Step 2

Having done so, you will see that the total of assets and liabilities will not become equal. If the liabilities appear larger than the assets, the difference should be equal to the loss posted in the profit and loss account. If the assets appear larger than liabilities, the difference should be equal to the profit posted in the profit and loss account.

Step 3

You will now enter the amount of profit or loss, as the case may be, under liabilities or assets side of the balance sheet in order to make the two sides equal.

A typical balance sheet

Typically, a simple balance sheet of a small business will look like the one in Exhibit 9.7.

Contingent liabilities

When we draw up our balance sheet, as on the last day of the year, we would be putting down all the items which show our obligations under the head "Liabilities". Liabilities so shown are obligations which have actually crystallised and which we shall have to discharge. In other words, these are absolute obligations which are actually descended on the business and are not subject to any condition.

On the other hand, in the course of running a business, you may feel that some obligations may possibly occur upon happening or non-happening of an event. For example, you may have received a claim from your supplier for an amount which you dispute. However, the debt becomes absolute and is recognised as a liability within the balance sheet.

Such liabilities which arise only upon occurrence or non-occurrence of an event are called "contingent liabilities". These liabilities do not form a part of the balance

EXHIBIT 9.7 Balance Sheet of ABC and Sons as on March 31, 1995

Liabilities	*Assets*
Partner's capital	Fixed assets
Balance as per last year	Land, building
Add: Share of profit transferred	Less: depreciation
Less: Drawings	Plant and machinery
	Less: Depreciation
	Capital
	Work-in-progress
Partner's current account (cr)	Investment and Deposits
	Deposit of telephone
	Lease deposit with landlord
	Deposit with customs/excise dept
	Security deposit with electricity board
Reserves	Loans and advance
General reserve	Advance paid for capital goods
Revaluation reserve	Advance to staff
Others	Loans of associates and sister concerns
Profit transferred from P&L A/c	
	Current assets
	Cash and bank balance
	Book debts (consider good)
	Inventories (raw material and packing material, stock-in-process, finished goods, consumable stores and spares)
	Advance paid for raw materials
Secured loans	
Cash credit (against hypothecation of stock and book debts)	
Term loans (against mortgage of plant, machinery, or building)	
Unsecured loans	Miscellaneous expenses
Current liabilities and provisions	Preliminary and preoperative expenditure
Creditors for supplies	Deferred revenue expenditure
Creditors for expense	Goodwill, patent,-copyright, royalty
Provision for tax	Partner's current A/c (debit)
	Loss transferred from P&L A/c

sheet since the balance sheet records only absolute admitted obligations. By way of information to the reader, the business firm will usually indicate contingent liabilities as footnotes outside the purview of the balance sheet.

You have now drawn up the balance sheet of your business as on the last day of the accounting period. Using as an example the trial balance of N. Shah. His balance sheet can be drawn up as under.

EXHIBIT 9.8 Balance Sheet of N. Shah as on 6/1/19xx

Fixed assets			
	Equipment		Rs 2,200
	Office equipment		Rs 416
	Vehicle		Rs 1,800
			Rs 4,416
Current assets			
	Debtors	Rs 1,568	
	Bank	Rs 1,244	
		Rs 2,812	
Less: current liabilities			
	Creditors		Rs 2,812
	Net assets		Rs 7,228
Opening capital			Rs 4,800
Add: profit			Rs 528
			Rs 5,328
Less: personal drawings			Rs 100
			Rs 5,228
Creditors			Rs 2,000
Long-term loans			Rs 7,228

(1) The phrase in the title "as on 6/1/19xx" indicates that the balance sheet applies only to that moment in time. The balance sheet of 7/1/19xx could be different. If, for example, Shah withdrew another Rs 20 on 7/1/19xx, then the bank figure would differ, as would the personal drawing figure.

(2) The figures are at cost price. The market value of assets could be, and probably is, quite different.

(3) Note the format of the balance sheet. There are a number of formats which could be used in presenting the assets and liabilities of a business but this particular method is most common nowadays for businesses which are not limited companies.

This particular format balances net assets with long-term sources of finance (opening capital, retained profits, and long-term loans). Current assets are netted off against current liabilities as it is more sensible to display similar items together. In this case, current assets and current liabilities are the result of the normal operations of a business and, as such, are linked to each other. The difference between current assets and current liabilities is called "working capital". This represents the cost of current assets which have not been acquired on credit but have been financed by the business itself.

Adjustment to Trial Balance

The example of N. Shah above is a rather simplified introduction to the construction of financial statements. There are a number of complications which can, and do arise in practice. Some of these complications will now be considered.

The trial balance of a business is incomplete in that it does not always show all transactions up to a given date. It will not show the value of stock on hand on the balance sheet date, nor will it show debts which the business will have incurred but for which the business has yet to receive a bill. For example, presumably N. Shah has a telephone, which he has used. Obviously, in using the telephone, he is incurring cost, but that will not be shown in the trial balance if Indian Telecom has still to invoice him.

The trial balance has to be adjusted and the principal adjustments which will now be considered are for

- stock;
- depreciation;
- accrued charges; and
- prepayments.

Stock Adjustment

Business in either retailing or manufacturing will buy large quantities of stock during a year either for resale or for use in the manufacturing process. At the end of year, such business will undoubtedly have unsold or unused stock on hand.

The matching principle requires that only the cost of purchasing stock, sufficient to account for the volume of sales made in an accounting period, should be used in determining profit. This means that excess stock purchased during the year must be discounted when determining the value of the goods actually sold.

Theoretically, this is a relatively simple process. For example, if a business has 100 units of stock at the start of a year, buys 1,200 units during the year, and has 150 units on hand at the end of the year, then the volume used, or sold, would be as follows.

Opening stock	100	
Add: bought in		1,200
Total available for use	1,300	
Less: closing stock		150
Total used		1,150

By applying unit costs to the volume of stock, quantities would become values, and the total used figure would become the cost of sales value for inclusion in the profit and loss account.

The value for cost of sales is, therefore:

OS (opening stock) + P (purchase made in one year) – CS (closing stock)

Depreciation Adjustment

As mentioned earlier, the purchase of assets does not appear in the profit and loss account. One of the reasons for this is that an asset is going to endure over more than one time period and affect more than one time period's profits. It was previously explained that it would be "unfair" if the cost of an asset were to be charged against one year's profits when subsequent years would also benefit.

Depreciation is simply a means of allocating the original cost of an asset over the years in which it will be used. In accounting, depreciation is not an attempt to measure the decline in value of an asset; it is just a means of equitably spreading the cost over an asset's useful life. All assets (except, usually, land) have a finite life, although the length of that life may be determined by various factors such as

(a) Normal wear and tear;
(b) Obsolescence;
(c) Passage of time; and
(d) Technological advance.

No matter what causes assets to have finite lives, all assets ought to be depreciated over their expected periods of economically useful lives. As with the valuation of stock, there are a number of ways that the annual depreciation can be calculated. Two methods in particular, however, predominate in business—straight line method and reducing balance method.

Straight Line Method

In this method, the net cost of an asset is depreciated evenly throughout its expected life. Thus, each year will bear an equal proportion of the cost.

For example, assume a business has bought a machine for Rs 10,000. It is expected to have a useful life of five years after which it will be of no value. (Note: the value to be depreciated is the net cost of the machine to the business. In this case, the net cost is Rs 10,000. If, after five years, the machine could be sold for scrap for Rs 1,000, then the cost to be depreciated would be Rs 9,000, since that would be the net cost of the machine to the firm. The annual depreciation charge is

$$\frac{\text{(Net cost) Rs } 10{,}000}{\text{(Useful life) } 5 \text{ years}} = \text{Rs } 2{,}000$$

Depreciation is just not a cost to the profit and loss account but its effect is also seen in the balance sheet as a "holding bay", where the cost of the asset is held until it can be transferred to the profit and loss account.

Reducing Balance Method

In this method,each year rather than having an arithmetically equal share of the cost, bears an equal percentage of the asset's value. In the above example, this could be 40 per cent. The percentage is applied not to the original cost but to the reduced balance after deducting the previous year's depreciation (hence the method's name).

EXHIBIT 9.9 Straight Line Method of Depreciation Adjustment

	Years				
	1	*2*	*3*	*4*	*5*
Opening balance	10,000	8,000	6,000	4,000	2,000
Less depreciation (shown in P&L a/c)	2,000	2,000	2,000	2,000	2,000
Balance (value in each year's balance sheet)	8,000	6,000	4,000	2,000	—

Which method ought to be adopted will depend on the expected wear and tear pattern of the asset. The two methods described above have different depreciation charges annually; the straight line method has high charges in the earlier years of the asset's life and the reducing balance method has low charges in the later years.

EXHIBIT 9.10 Reducing Balance Method of Depreciation Adjustment

	Years				
	1	2	3	4	5
Opening balance	10,000	6,000	3,600	2,160	1,296
Less depreciation (shown in P&L a/c)	4,000	2,400	1,440	864	518
Balance (value in each year's balance sheet)	6,000	3,600	2,160	1,296	778

Accrual Adjustment

An accrual is an estimate of a bill which the business knows is due at the year-end but for which it has yet to be invoiced. The usual accruals would consist of the telephone account and the electricity account. Interest account can also be an example.

In the working to produce the accounts the following journal entries would be required:

Debit telephones a/c	275
Credit accruals	275

Prepayments Adjustment

Accruals adjustment is required for expenses which, although incurred, have not yet been invoiced. The opposite can also happen; that is, a business could incur expenditure in one year, which is relevant to the subsequent year. For example, a business may have a year-end, 31/3/19xx. If the business paid its annual insurance premium for the year ended 31/3/19xx in March of the current year, the expenditure would have been incurred in 19x9 but would refer to the year 19x0.

The prepayment adjustment is used to apply the matching rule of accounts and, in the above case, removes the cost of the premium from 19x9 and includes it in the cost of 19x0.

If the insurance premium were Rs 350, the appropriate journal entry in the workings to produce the final accounts would be:

Debit prepayments	350
Credit insurance	350

The effect on the final accounts would be to increase the prepayments accounts (a current asset, similar to debtors) and decrease the expense of insurance in the profit and loss account.

Profit and Loss Account

The statement of profit and loss depicts the total income of the company, expenditure incurred in deriving that income, income tax payable to the government, net profit earned, dividend paid to the shareholders, and profit retained and ploughed back into the company.

Features of profit and loss account

- Prepared for a given period
- Comparative position
- Vertically drawn
- Grouping of income and expenditure
- Details in schedules and notes to the accounts
- Appropriation of profit and transfer of balance to balance sheet
- Signed by person who prepared it and auditors

The profit and loss account begins with gross profit on the income side. All general administrative expenses relating to establishment are shown as expenses. Income from non-business sources such as rent received from premises or idle machines hired out and so on, are also accounted for.

The expenses side also shows "Reserve for doubtful debts", the quantum of which is determined based on past experience. Self-assessment of income tax is also made according to the income tax Act; the amount payable is shown as "Provision for tax" on the expenses side. If the income side becomes heavier after all these items are listed, the result is a net profit. If the expenses side becomes heavier, the result is a loss. The amount of net profit or loss, as the case may be, shown by the profit and loss account, is then transferred to the balance sheet.

The objective of the profit and loss account is to determine the level of profit or loss earned by a business in an accounting period. It does this by listing all revenue income and then deducting all revenue cost, which have been matched to the accounting period being considered. The first task, then, is to examine the trial balance and identify all revenue items. To facilitate matters at this stage, the following definitions may help.

- Revenue income would include all income that a business normally expects to earn in an accounting period. For the majority of business, this would normally be restricted to sales, fees earned, and interest received. It would not include sources of cash such as capital introduced, loans raised, grants received, or income from the sale of assets. Such sources are not "normal" or renewable.
- Revenue costs would include all costs which a business would normally expect to incur every year. They are recurrent costs and the business receives nothing permanent in return. Examples of such costs would be wages, raw materials, power, interest paid, and rent.

Costs, which provide a business something permanent, such as a new vehicle, would be excluded since that would be capital expenditure (or the provision of an asset). The repayment of loans would also be excluded (although money is spent on repaying a loan, there is no real cost incurred in returning to somebody that person's own money).

The format of the profit and loss account is normally divided into two parts. First, there is the trading account (or manufacturing account if the firm is in manufacturing) which identifies the profit made in just buying units and then selling them. The manufacturing account identifies the profit made in making something and then selling it. This difference in either the trading profit or the manufacturing profit is referred to as the firm's gross profit.

The profit and loss account starts with the gross profit and deducts from that all the remaining revenue costs incurred. Although there is a distinction made between the trading account and the profit and loss account, this distinction is normally only seen in the accounts of large organisations. The accounts of smaller businesses normally do not distinguish between the two accounts except by highlighting the gross profit.

Using as an example the trial balance of N. Shah, his profit and loss account can now be drawn up as shown below.

EXHIBIT 9.11 N. Shah Trading and Profit and Loss Account for the Period 1/1/19xx to 6/1/19xx

Sales			Rs 2,853
Less:	Cost of sales		
	Purchase of raw materials		Rs 1,364
		Gross profit	Rs 1,489
Less:	Expenses		
	Rent		Rs 150
	Insurance		Rs 360
	Stationery		Rs 70
	Delivery		Rs 16
	Interest		Rs 100
	Wages		Rs 240
	Travel costs		Rs 25
		Net profit	Rs 961

How does a profit and loss account look

The profit and loss account of a concern is usually divided into two sections. The first section is termed the trading and manufacturing account, which is so framed as to show the gross profit.

Gross Profit

It is the difference between the cost of goods that have been sold and the proceeds of their sales, without any deduction for distribution expenses and general establishment charges.

Net Profit

Gross profit less the operating expenses will give the net profit. A company's total revenues less total expenses for a set period is its net profit.

EXHIBIT 9.12 A Typical Form of a Trading and Manufacturing Account

Dr.	*Rs*		*Cr. Rs*
To stock at commencement		By sales	----
" Manufactured Goods	----	Less: returns	----
" Stock-in-process	----	Less: excise	----
" Raw materials	----		----
" Purchase of raw materials	----		
Less: returns	----	Stock at end :	
		Manufactured goods	----
		Stock-in process	----
		Raw materials	----
" Carriage	----		
" Wages	----		
" Motive power	----		
" Factory rent and taxes	----		
" Coal and coke	----		
" Water	----		
" Oil	----		
" Belting	----		
" Sundry manufacturing expenses	----		
" Repairs to factory building	----		
" Repairs to plant	----		
" Depreciation on factory building	----		
" Depreciation	----		
" Gross profit (transferred to P&L A/c)	----		

Trading and manufacturing account helps in ascertaining gross profit and monitoring its increase or decrease from year to year as an effective measure to control business results.

DISCUSSION FORUM

What is depreciation? Outline the mechanics of two methods of depreciation.

Cash Flow Statement

A cash flow statement depicts the cash generated and utilised by a company. This statement completes the set of financial statements. It is to be understood that the cash flow statement is a "derived" statement—derived from the balance sheet and profit and loss account. The cash flow statement is prepared under the indirect method, unlike the balance sheet and profit and loss account which are "primary" statements as they are constructed directly from the accounting records.

A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows during the period from operating, investing and financing activities. Cash has been defined as *comprising cash on hand and demand deposits with banks; cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.* Cash flows refer to *inflows and outflows of cash* and *cash equivalents.*

Box 9.1 Features of a Cash Flow Statement

- Prepared for a given period.
- Comparative position.
- Vertically drawn.
- Cash flows from operating, investing and financing activities.
- Reconciliation with the opening and closing balances of cash and cash equivalents.
- Indirect method for cash flows from operating activities.
- Signed by the person who prepared it and auditors.
- A derived statement.

Visit www.icai.org for framework of financial statements.

A cash flow statement, when used in conjunction with the other financial statements, provides information that benefits its users in a number of ways as given below.

1. It enables users to evaluate the changes in net assets of an enterprise, its financial structure including its liquidity and solvency, and its ability to affect the amount and timing of cash flows in order to adapt to changing circumstances and opportunities.
2. The information is useful in assessing the ability of an enterprise to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different enterprises.
3. It enhances the comparability of the reporting of operating performance by different enterprises because it eliminates the effects of using different accounting treatments for the same transactions.
4. Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows.
5. It is useful in checking the accuracy of past assessments of future cash flows.
6. It helps in examining the relationship between profitability and net cash flow.

FINANCIAL RATIO ANALYSIS

Ratio analysis is a comprehensive tool of analysis in that it seeks to measure and establish cause and effect relationships between either two items of a balance sheet or of a profit and loss account, or both the balance sheet and the profit and loss account. Ratio analysis is thus a relative and more focused analysis of financial statements. It is of particular significance in the following cases.

- Comparison against industry benchmarks
- Inter-firm comparison because absolute figure comparison will lead to nowhere
- Intra-firm comparison
- Analysis of chronological performance over a long period.

SNAPSHOT

The important financial ratios are:

- Return on investment (ROI) ratios
- Solvency ratios
- Liquidity ratios
- Turnover ratios
- Profitability ratios
- Du Pont analysis
- Capital Market ratios

Ratios are classified according to their functions and objectives and are given below:

1. Return on investment (ROI) ratios
2. Solvency ratios
3. Liquidity ratios
4. Turnover ratios
5. Profitability ratios
6. Du Pont analysis
7. Capital market ratios

1. Return on Investment (ROI) Ratios

Maximisation of ROI is the ultimate objective of an enterprise and it is the ultimate measure of the efficiency of performance of a management. It is the expectation of a high return that motivates equity shareholders to continue with the company and new investors to put in their money in the company's equity. Three major ROI ratios are:

(a) Return on Net Worth (RONW)

(b) Earnings per Share (EPS)

(c) Cash Earnings per share (CEPS)

(a) *Return on Net Worth(%)*: The ratio measures the net profit earned on the equity shareholders' funds. It is the measure of overall profitability of a company after discharging the cost of borrowed capital and income tax payable to the government.

RONW= (PAT – Preference dividend/Equity shareholder's funds or Net worth) * 100

PAT is Profit after Tax

(b) *Earnings per Share(Rs)*: The ratio measures the overall profitability in terms of per equity share of capital contributed by the owners.

EPS = PAT–Preferences dividend/weighted average no. of equity shares outstanding

(c) *Cash Earnings per Share(Rs)*: The ratio measures the overall cash profitability in terms of per equity share of capital contributed by the owners. It is a refinement of EPS in that it takes into account the cash earning, and not accrual based earnings.

CEPS = PAT–Preference dividend +non-cash charges/weighted average no. of equity shares

2. Solvency Ratios

The capacity of an enterprise to discharge its obligations towards long-term lenders indicates its financial strength and ensures its long-term survival. It is important to analyse the capacity of an enterprise to raise further capital borrowings. These are particularly useful for financial institutions, banks, and other lenders to assess the creditworthiness of a company and the attendant financial default risk. The various solvency ratios are:

a. Net Asset Value (NAV)
b. Debt Equity – D/E
c. Interest Cover
d. Debt-Service Coverage Ratio (DSCR)

(a) *Net Asset Value(Rs)*: The ratio measures the net worth or net asset value per equity share. It thus seeks to assess to what extent the value of equity share of a company contributed at par or at a premium has grown or the value/wealth that has been created for the shareholders.

NAV= Equity shareholders' funds/No. of equity shares

(b) *Debt Equity (Times)*: The ratio measures the proportion of debt and capital.

Debt Equity Ratio = Long-term debt/Total net worth (Equity shareholders' funds + Preference capital)

(c) *Interest Cover (Times)*: The ratio measures the capacity of a company to pay the interest liability it has incurred on its long-term borrowings out of its cash profits.

Interest Cover = PAT interest on long-term debt + Non-cash charges/Interest on long-term debt

(d) *DSCR (Times)*: The ratio measures the capacity of a company to pay the instalments of the principal due and the interest liability it has incurred on its long-term borrowings out of its cash profits.

DSCR (Times) = PAT + Interest on long-term debt + Non-cash charges/Interest on long-term debt + Instalments of principal due

3. Liquidity Ratios

The capacity of an enterprise to discharge its suppliers and service providers and to meet its day-to-day expenses indicates its liquidity and ensures smooth continuity of operations, which in turn has a strong bearing on the long-term survival of the company. These are particularly useful for the suppliers, employees, providers of services, and lenders to assess the short-term financial default risk attached to a company. The five major ratios here are:

(a) *Current Ratio (Times)*:

Current assets, loans and advances + Short-term investments/Current liabilities + Provisions + Short-term debt

(b) *Quick Ratio (Times)*:

Current assets, Loans advances – Inventory + Short-term investments/Current liabilities + Provisions + Short-term debt net working capital limits

(c) *Collection Period to Customers (Days)*:

Receivables*365/Credit sales

(d) *Suppliers' Credit (Days)*:

Payables*365/Credit purchases

(e) *Inventory-holding Period*:

Inventory*365/Cost of goods sold

4. Turnover Ratios

The efficiency with which the assets and resources of a company are utilised in generating operational revenue has a direct bearing on the top line. It is, therefore, important to study the turnover ratios. The four major ratios are:

(a) *Fixed Assets Turnover Ratio (Times)*:

Net sales/Net block of fixed assets

(b) *Net Worth Turnover ratio (Times)*:

Net sales/Net worth

(c) *Debtors Turnover Ratio (Times)*

(d) *Inventory Turnover Ratio (Times)*

These two ratios have been discussed under the group of liquidity ratios in a different manner.

5. Profitability Ratios

These ratios analyse the profitability of a enterprise at different steps, or at intermediate levels of business activities. The major profit margin ratios are:

(a) *Multi-step Profit Margins to Sales Ratio*: These are GP, PBDIT, OP, PBTEOT, PBT, PAT

For example, GP%= GP*100/Net sales

(b) *Ratios of Individual Costs and Expenses to Sales (%)*:

Raw materials consumed (%) = Raw materials *100/Net sales

(c) *Ratios of Other Income, Extraordinary Items and Prior Year Adjustments to PBT* and/or Net Sales (%):

Other income to PBT (%) = Other income*100/PBT

(d) *Effective Tax Rate (%)*:

Current income tax* 100/PBT

6. Du Pont Analysis

Du Pont analysis seeks to measure the relationship between net profit margin and net worth turnover, which is the ultimate overall profitability ratio.

$$\frac{\text{Net Profit}}{\text{Total Assets}} = \frac{\text{Net Profit}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}}$$

7. Capital Market Ratios

The capital market has become a major source of capital, both equity as well as bonds or debentures for the industry. It is necessary for the entrepreneur to have the knowledge of these ratios. The major ratios are:

Visit www.venturline.com for financial ratio analysis.

a. EPS
b. Price earning ratio–P/E (Times) = Market price of the equity share/EPS
c. NAV
d. Market price to NAV (Times) = Market price of the equity share/NAV
e. Market capitalisation (Rs) = No. of Equity shares O/S* Market price
f. Yield to investors (%)

(Dividend received + Market appreciation) *100/Initial investment

Note: EPS and NAV have already been discussed under ROI ratios.

DISCUSSION FORUM

- Outline the importance of ratio analysis.
- What are the core ratios?

SUMMARY

- Financial management involves two types of functions:
  Managerial Finance Function
  Routine Finance Functions
- A simple method of estimating the working capital is based on the "average manufacturing cycle". The cost formulas used for the valuation of stock are
  (a) FIFO, (b) LIFO, and (c) WAC.
- Some of the important financial ratios used for managing working capital are:
  (a) Debtor's turnover ratio, (b) Creditor's velocity ratio, (c) Stock turnover ratio, (d) Current ratio, and (e) Stock-working Capital ratio.
- The various stages in accounting process are: documentation, recording, classifying, summarising, and bifurcation.

- The important books to be maintained by an SSI are: purchase book, sales book, cash book, journal, and ledger.
- The components of a financial statement are:
  (1) Balance sheet;
  (2) Profit and Loss account or income statement: and
  (3) Cash flow statement.

  The important financial ratios are: Return on investment (ROI) ratios, Solvency ratios, Liquidity ratios, Turnover ratios, Profitability ratios, Du Pont analysis, and Capital market ratios.

KEY WORDS

- Accounting procedure
- Annual report
- Assets
- Auditor
- Balance sheet
- Capital
- Cash flow statement
- Credit
- Current Asset
- Debit
- Equity
- Financial statements
- Fixed asset
- Financial ratios
- ICAI
- Inventory
- Liabilities
- Liquidity
- Net profit
- FIFO
- LIFO
- WAC
- Purchase book
- Sales book
- Cash book
- Journal
- Ledger
- Return on investment (ROI) ratios
- Solvency ratios
- Liquidity ratios
- Turnover ratios
- Profitability ratios
- Du Pont analysis
- Capital market ratios
- Working capital management

EXERCISES

Activity 1: Divide the class into small group of four to six students. Collect the annual report of a local SSI. Study the annual report and examine the financial statements of the enterprise and prepare a 20-minute Power Point presentation on financial management in a small business and present in the class. Request your professor to lend his supervision for this exercise.

Problem 1: A proforma cost sheet of a company provides the following particulars.

S. No.	Elements of Cost	Amount per Unit
1	Raw material	80
2	Direct labour	30
3	Overheads	60
4	Total cost	170
5	Profit	30
6	Selling price	200

The following further particulars are available.

a. Raw materials are in stock for one month
b. Credit allowed by suppliers is one month
c. Credit allowed to customers is two months
d. Lag in payment of wages a week and a half
e. Lag in payment of overheads is one month
f. Materials are in process for an average of half month
g. Finished goods are in stock for an average of one month
h. ¼ of output is sold against cash

Cash in hand and at bank is expected to be Rs 25,000. Prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of product.

You may assume that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a period of four weeks is equivalent to a month.

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Marketing Management in Small Business

10

Entrepreneurs from Tamil Nadu, participating in a trade exhibition. These entrepreneurs are marketing their products/services in the exhibition.

"The Customer is the most important person in our organization. He is not dependent on us. We are dependent on him ... He is doing a favour by giving us an opportunity to do so."

—Mahatma Gandhi

Learning Objectives

- To understand the importance of marketing in SSI
- To identify the common marketing problems faced by SSI
- To identify the marketing process of SSI
- To understand the significance of service marketing
- To identify the prevailing export environment and procedures, formalities, and documentation required for exports

IMPORTANCE OF MARKETING

A large-scale business can have its own formal marketing network, media campaigns, and sales force, but a small unit may have to depend totally on personal efforts and resources, making it informal and flexible. Marketing makes or breaks a small enterprise. An enterprise grows, stagnates, or perishes with the success or failure, as the case may be, of marketing. "Nirma" is a marketing success story. Even a highly efficient production unit may be rendered useless if the product cannot find a market. Though financial and technical assistance are available from the government and through other agencies, a faulty marketing strategy may generate problems of repayment of loans.

Definition

Marketing can be defined as a process which identifies, anticipates, and satisfies customer needs efficiently and profitably in keeping with the objectives of the enterprise. Marketing is a specialised and dynamic area. It requires appropriate actions in response to market demands by developing suitable products and effective strategies.

Common Marketing Problems Faced by Small-scale Industries

1. **Lack of brand image:** Consumers may be guided by brand image. Large-scale units formulate their strategy and create and monitor the market with the help of media. In such an environment, small-scale units with limited propaganda and advertising will find it difficult to penetrate the market.
2. **Lack of sales force:** Small units cannot afford to maintain a well-oiled sales force manned by efficient personnel.
3. **Product quality:** Small-scale units in the initial stages have a serious limitation of product quality. It is costly and difficult for a small unit to have quality testing and evaluating equipment. With the result that, competition will have to be in terms of product prices rather than quality. The stipulation of minimum wages on the one hand and low labour productivity on the other makes it difficult for small units to compete in terms of prices. They may, therefore, be compelled to reduce the profit margin or use low-priced inputs or zero wage family labour.

4. **Credit sales:** The small-scale sector is invariably called upon to sell on credit. However, when it comes to purchasing inputs, they are denied liberal credit facilities. With the result that small units often have to borrow excessive working capital than what is legitimately needed. The effective interest cost increases the general cost of production and prices, making it noncompetitive. The small enterprise in a way faces a buyer's market while marketing its products and a seller's market while buying raw materials.
5. **Low prices:** Price determination in the small business is generally non-institutional. The prices quoted by large enterprise are accepted together with predetermined terms of sale. In case of small enterprises, the prices are "bargained" on a one-to-one basis and brought down to the lowest level possible.
6. **Local and limited market:** Small enterprises generally cater to the needs of the local and limited market due to prohibitive cost of creating a wider distribution network. This is a blessing as well as a curse for the enterprise. The addition of transport cost will make the product noncompetitive in upcountry markets.

SNAPSHOT

- Marketing makes or breaks a small enterprise.
- Marketing can be defined as a process which identifies, anticipates, and satisfies customer needs efficiently and profitably in keeping with the objectives of the enterprise.
- **Common marketing problems faced by small-scale industries are:** lack of brand image, lack of sales force, product quality, credit sales, low prices, and local and limited market.

Marketing Process

The enterprise exists for marketing its products. As such, marketing is interrelated with all other stages in their respective sequences. A simple marketing system is shown in Figure 10.1. The process comprise the following stages.

Visit www.smenetwork.net to learn about marketing strategy in small business.

1. **Identification of opportunity:** Identification of a product or service which holds ample potential for commercial exploitation.
2. **Market survey:** The purpose of a survey is to verify whether the entre-preneur's perception of the product or service corresponds with that of the customer's. It leads to the identification of prospective customers, their extent, and dispersion in the area. It will further indicate whether any modification of the idea is called for.

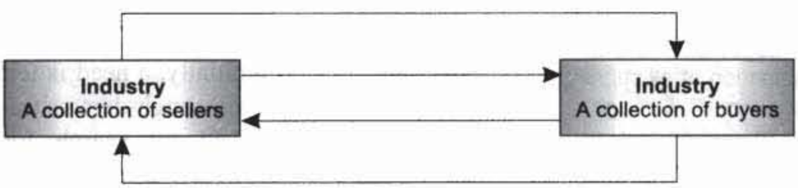

Figure 10.1 ■ A Simple Marketing System

3. **Choosing the target market:** Choose the market with full awareness of its strong and weak points.
4. **Designing marketing strategies:** Suitable strategy has to be devised to enter the market and to gradually build up and sustain the product.
5. **Implementation of marketing programmes:** Proper planning is required for effective implementation of marketing programmes. A time frame has to be chalked out for specific activities in their order of sequence and put into practice with concerted effort.

DISCUSSION FORUM

- **Discuss in small groups the importance of marketing management in small business.**
- **Explain the common marketing problems faced by small-scale industries.**

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

A realistic understanding of customer behaviour makes marketing easier. Customer complaint is not personal. It is regarding a product or service or the process system involved in making products or planning services. CRM focuses on meeting the individual needs of customers. The skill requires building a customer database and doing data mining to detect trends, segments, and individual needs.

(i) **Who buys:** Knowledge of market size and nature will help plan the marketing activities for better results. A rough estimate of the following will suffice in many respects.

- Number of customers
- At what rate will they purchase?
- Where are they located?
- What are their special characteristics, including cultural, social, economic and lifestyle pattern?

(ii) **When do they buy:** The pattern of demand for all goods is not the same throughout. Information about variation of demand with time, if any, will help make the products available when they are in demand. The following questions may be addressed.

- Is the demand seasonal?
- What is the trend of demand—rising or falling?

(iii) **Why do they buy:** Initially, a need is felt through experience or through demonstration. This is followed by search for information as one comes face to face with many alternative solutions. An evaluation is

SNAPSHOT

- CRM focuses on meeting the individual needs of customers. The skill requires building a customer database and doing data mining to detect trends, segments, and individual needs.
- The business, as a whole, engages in different marketing activities. The combination of all such activities is called a "marketing mix". Though there are many elements in a marketing mix, a popular classification consists of "4 Ps"—***product, promotion, price,*** and ***place.***

made on the basis of the product's function, appearance, cost, and so on and then a final decision on purchase is made.

Past purchase experience, if satisfactory, leads to repeat purchases. And without being asked or paid for, the consumer recommends it to others as well. This information is important as feedback to judge the impact of the product in the market in true perspective.

Box 10.1 Customer Satisfaction Index (CSI)

CSI is generally calculated based on market research. It is a known that, a satisfied customer will influence five more persons to buy the product/service. Whereas a dissatisfied customer will express his emotions to eleven persons. In case of 2 percent customer complaints, the CSI is calculated as

$$\text{CSI} = 98*5-2*11/5=93.6\%$$

Market Segmentation

Demand for an item, in terms of quality, size, price, performance, and so on may not be uniform throughout the market it may be segmented. For example, some people will opt for a simple agitator type of washing machine, others semi-automatic, still others for a automatic version.

Customer preferences may be due to differences in economic, demographic, and psychological factors. While selecting a target market this point should be kept in mind—whether to cater to a single segment, or all the segments, depending on the capacity of production and managerial ability to control.

The present Indian scenario is so diverse and full of contrasts and contradictions that you can sell almost anything. It is estimated that 30 crore Indians have enough disposable income to buy the ever-multiplying range of consumer goods. And the number is steadily on the rise. It is not that the rest of the population is lagging far behind. Consumerism is infecting them also. The scenario presents a vast spectrum of paradoxes—at one end are the poor and illiterate with limited needs and at the other end are luxury goods in all their variety and abundance.

At one extreme there are highly knowledgeable and discerning customers, and at the other are the ignorant. On the one hand, the most sophisticated baiting techniques are employed to hook customers, while on the other, primitive modes of marketing still persist. Choose judiciously.

Of course, one should take note that due to proliferation of communication this distinction is fast dissolving. Some time back, the price of an LG compressor, a top class brand, was about Rs 5,000 and the second best brand, Khosahla, was Rs 3,000, while an unknown brand of the same capacity was available for only Rs 300.

Similary, take the case of any other item, say cosmetics—powder, nail polish, lotion, and so on—available in posh air-conditioned beauty parlours or classy shopping arcades in big cities as well as in remote village roadside shops filled with dust and fleas. The brands are different. It is also true that better brands are making inroads in these areas also. The Reynolds refill, costing many times more than its cheaper cousins, is being sold in the same market. There are innumerable such examples.

Such paradoxical coexistence is likely to endure for a long time to come. This kind of situation offers unlimited flexibility in the choice of products. Make it your business to take full advantage of the situation.

Market Research

Market research, which you have earlier carried out while selecting a product and its market, does not end there. It should be a continuous process—always collecting information from all sources—evaluating your position in the market and modifying strategy, if necessary.

It need not be a full-scale research project for smaller firms. Simple observation may be useful to gauge market reaction. The choice between methods and scale of research activity will depend on two factors. First, the depth and accuracy of the information required, and second, the budget available. Both factors may be lacking in smaller firms.

For a majority of smaller firms, keeping their eyes and ears open to what is happening in the market, especially whatever affects their business and readiness to take adaptive course of action, will suffice. However, one can take note of the trend indicated by secondary information. In any case, it is required to remain very alert and alive to the market situation.

Marketing Mix

Business, as a whole, engages in different marketing activities. The combination of all such activities is called a "marketing mix". Though there are many elements, a popular classification consists of the "4 Ps"—***product, promotion, price,*** and ***place.***

Product

This is the core element of the marketing mix. The rest is built around it. It includes everything a customer gets—design, quality, packaging, and guarantee and after-sales service.

There is no ideal or appropriate mix. It all depends on the requirement of the target market. Different market segments require different grades of quality and sophistication. Careful attention should be given to the tangible and intangible elements of the product to create an overall impact in the market.

Promotion

It is a means by which a business creates an awareness for its product among customers. Information on the product is a prerequisite for making a purchase. Success or failure of a venture depends mainly on the effectiveness of promotional efforts made for marketing the product. A cursory glance at the arena—what the big and small players are doing—will be quite enlightening.

(a) High-tech and high-budget advertisement: Through electronic media (radio and TV) the entire arsenal in the psychological armoury is deployed to outdo the competitors' advantages.

(b) Advertising through print media: Newspapers, journals, periodicals, and so on. Eye-catching advertisements loaded with carefully chosen words create a longing for the goods.

(c) Sponsorship of regional, national, and international events provide good scope for advertisements.

(d) Display of posters, placards, and hoardings during national and international sports and other events.

(e) Participation in exhibitions and fairs—local, regional, national, and international—whichever is available and affordable.

(f) Putting up attractive hoardings and billboards at strategic locations on highways and roads.

(g) Pasting posters and leaflets.

(h) Distribution of leaflets through newspaper vendors. Distribution at public places, and in trains and buses. Dropping these into personal letterboxes.

(i) Direct mailing to prospective customers. Addresses of prospective customers should be resourcefully and tactfully collected from various sources.

(j) Personal contacts through dealers and old customers.

(k) Door-to-door sales. Earlier, it was almost non-existent. Now it is on the increase.

(l) By offering small gift packs with the message or a product sample with other fast-selling goods.

(m) By offering inaugural or fixed-duration discounts.

(n) Announcing a hire-purchase scheme, and so on.

Modern advertisements aim beyond merely creating awareness. They actively motivate customers to buy. Thirty seconds advertisements during TV serials are presented to leave a lingering impression in the minds of the viewers. Often, visuals are addressed to children, who are easily influenced and who compel their parents to purchase.

Database marketing is also making inroads into the country. All information—likes, dislikes and other predictions—about prospective customers are collected and processed in a computer. Based on this information, a prediction is made about when the customer is likely to feel the need for a particular product.

Advertising is a highly specialised area and highly creative people run the business. To requisition their services will make you substantially poorer. Depending on your capacity and necessity, select the medium you can afford and use it with profit. In any case, advertise you must, otherwise nobody will come to know about your product.

Price

Pricing comprises basic price, discount, and credit policy. What should be the price on cash and on credit? Prices should be decided in the light of production costs, demand, and competition. Pricing policy is related to different qualities, and again, to different market segments. One manufacturer may be able to supply a high-quality product at a certain price while another in the same industry offers a cheaper product at a lower price to another market segment.

A good example of this policy would be Nirma. When it was being launched, Surf was the dominant brand in the market targeting the high price segment. Nirma targeted its detergent at a section of people that was hesitant to use any brand of washing powder because of its prohibitive price. Most people in this segment used cakes of washing soap. To them, washing powder was used only by the affluent. But when Nirma offered them a quality detergent at an affordable price, many of them made the switch. Not only that, some consumers of Surf switched orver to Nirma as well.

Costing and Pricing in SSI Units

The cost of a product has two components. One is the fixed cost which does not vary with the change in production level. The other is the variable cost which varies according to variation in the level of production. Details of these two costs are given below.

Fixed cost

1. Factory rent
2. Salary of staff
3. Interest on loan
4. Depreciation charge on machinery
5. Taxes and interest rates
6. Water and power charges
7. Miscellaneous fixed expenses

The difference between the selling price of a product and its variable cost is known as contribution. Any SSI unit should have total contribution from operations, equal to the fixed cost incurred by it to enable it to reach the break-even point—the point of no loss or profits. Any sales below the break-even point will result in a loss for the unit while production/sales above the break-even point will mean profits.

A rudimentary idea of costing can be had by referring to what is known as the cost ladder.

Cost Ladder

Direct material cost + direct labour cost	= Principal cost
Principal cost + overheads	= Factory cost
Factory cost + selling expenses	= Ex-factory cost
Ex-factory cost + profit	= Selling price
Selling price + discount	= Market price

The major variables are material and labour costs and overheads. Direct material cost will vary according to the prevailing market condition. Direct labour cost will vary according to the skill, efficiency, or productivity of labour. It can be controlled by employing skilled, experienced, quality-conscious, and productive labour and by better supervision and management. Use of the latest technology and machinery will also have a direct bearing on productivity.

Overheads should be kept low, especially in the initial stages, by keeping the managerial and administrative staff to the minimum without affecting the overall operation of the firm. Selling expenses also should be kept within reasonable limits. When the eminent NRI industrialist, Swaraj Paul, decided to set up a steel plant in the UK, many of his friends advised him against the decision on grounds that he would not be able to compete in the market due to high labour costs. However, Swaraj Paul did not heed the advice and made a success of his venture. He made it possible not by paying lower wages to the labour but by improving efficiency and productivity.

The per unit profit margin has a bearing on the volume of sales. With high volume of sales, the profit margin can be kept low. An attractive discount package to dealers and retailers will motivate them to boost sales. A practical pricing policy should be framed by keeping in mind all the factors mentioned above.

EXHIBIT 10.1 Profit and Loss Account of a SSI Unit Manufacturing Steel Glasses

	Expenses	*Income*
1.	Variable Sales	Rs 3,1,2000
2.	Raw materials @ Rs 13/- per glass. S.S. sheets 13.20 quintals for 24000 glasses in a year @ Rs 16000/- per quintal	Rs 2,11,200
3.	Fixed	
4.	Factory rent	Rs 18,000
5.	Wages	Rs 24,000
6.	Interest on loan	Rs 6,000
7.	Electricity	Rs 18,000
8.	Depreciation	Rs 9,000
9.	Miscellaneous fixed expenses	Rs 6,000
10.	Total fixed expenses	Rs 81,000
11.	Net profit	Rs 19,800
		Rs 31,2000

We may draw the following conclusions from a study of the above account.

(i)	Selling price per glass	Rs 13
(ii)	Raw material cost/glass	Rs 8.80
(iii)	Contribution per glass	Rs 4.20
(iv)	Fixed expenses	Rs 81,000
(v)	No. of glasses to be sold to recover fixed expenses	Rs 19,286
(vi)	Minimum monthly sales to recover entire fixed cost or break-even sales	1,608 glasses/month

Thus, the following inferences can be drawn from the above analysis.

1. The SSI unit can produce 2,000 glasses/month.
2. The unit has to sell a minimum of 1,608 glasses per month to start achieving profits. There will be losses below this level and there will be profits above this level.
3. To increase profit volume, either the selling price has to be increased or raw material cost has to be reduced. In other words, profit volume is directly proportional to the contribution achieved by the SSI unit.
4. At present the net profit to sales ratio is 6.35 per cent. With a view to increasing the profitability of the industry, the entrepreneur has to increase production level from the existing 2,000 glasses/month to a higher level.

Place

This is to make the product available to the target market. It includes physical movement of the product and the type of distribution channels or dealership to be employed.

Big firms have their zonal or regional authorised agents or dealers spread over the entire country. The dealers, in turn, work with sub-agents or distributors and retailers, or directly with the customers, depending on the type of the goods—consumer, industrial, or pharmaceutical. Travelling salesmen book orders from retailers and the consignment follows from the dealers or directly from the manufacturers.

Though they cannot afford to have zonal offices, small firms too are devising their own ways of doing business. They also receive regular orders for goods. Entry may seem to be difficult. Employ ingenuity.

Interestingly, it has been observed that many authorised dealers of known brands also stock other unknown or new brands of goods. They also insist on the customer buying the lesser-known brand. The secret is a higher margin of profit. The small entrepreneur must be ready to sacrifice a portion of his/her profit in a bid to enter the market. It need not necessarily be a great sacrifice. With fewer overheads and low labour costs coupled with better planning and management, a small unit may be able to reap good profits.

This does not mean that small-scale industries are better managed. That is generally not the case. There is scope for economising at various stages and optimising the use of man and machine without sacrificing quality and productivity. Adequate attention needs to be paid to this aspect, which has been neglected by small-scale entrepreneurs due to ignorance. This drawback can be remedied by equipping small-scale entrepreneurs with the necessary information through short-term courses in the required area under EDPs organised by various institutions and agencies.

Offer better incentives than others' agents. Tackle the local retailers exactly in the same way–gradually expanding the radius of operation. At present, due to stiff competition, retailers, in most cases, get everything at the point of sale. Small-scale mints must adopt the same practice.

Employ salespersons on terms and conditions suitable to the unit. It can be on a fixed monthly salary. The person must report daily progress and discuss the strategy for the next day. The salesperson may be given extra commission in addition to the

Visit www.techlistings.net/crm to learn about CRM and CRM tools.

monthly salary if he or she exceeds a certain quota. Nowadays, there is no dearth of young persons looking for such an opportunity.

The Canteen Stores Department (CSD) of the defence services is a big customer of consumer durables and non-durables. It has many branches all over the country and many more are being opened in places where this facility was not available earlier.

Shopping by television is also set for expansion in this country.

Quality, packaging, and price will be the deciding factors in case of consumer goods. Add performance, durability, and versatility for consumer durables. The entrepreneur's own promotional skill is never to be ruled out. The entrepreneur can evolve a personal strategy for marketing. It is very important for the survival of a small-scale unit. You may seek help from NSIC or any other government agency.

DISCUSSION FORUM

- What is CRM? Discuss the tools used in CRM.
- Explain the concept of marketing mix.

MARKETING OF SERVICES

India's Growing Services Sector

In line with the global trend, the services sector in India is growing rapidly. During 2004, the share of services in the country's GDP was 54.2 per cent, up from the 51.5 per cent recorded during 2003. And all indications are that this growth will get accelerated not only because of burgeoning of services within India, but also because of their increasing export.

India's high capabilities in Information Technology, and its booming IT software exports which now account for 2 per cent of the GDP are well known. In addition, there is the most popular segment of its services sector, the entertainment industry, particularly films and TV, which happen to be among the fastest growing in the world. Indian films are popular across West Asia, Afghanistan, Central Asia, Russia, South Africa, and South East Asia. They are now penetrating the Western world, thanks both to the uniqueness of the entertainment offered by them, which transcends cultural barriers, and also the Indian global diaspora.

Even though the service sector is more than twice the size of the manufacturing sector in most highly industrialised economies, both the study and the practice of marketing have focused on manufacturing industries much more than on the services sector. The growing competitive market for services means that a marketing orientation has become essential for the competitive survival for service industries too.

Differences between Goods and Services Marketing

Although there are some tools, concepts, and strategies that can be generalised to all marketing situations, it is important to understand that marketing management tasks in the services sector differ from those in the manufacturing sector in several respects. However, it should be recognised that each of the distinguishing characteristics discussed here is only a generalisation and does not apply equally to all types of services.

Intangible nature of the service product: While goods are tangible, services are intangible. A manufactured good can be wrapped up and taken home, becoming the property of the purchaser. It is different in the case of services, for example, motor repairing, supplying information, offering an insurance policy, maintenance and rental services, catering, running a creche, beauty parlour, laundry, hair cutting saloon, school, or hospital, and so on

More contacts between customers and service personnel: Few consumer goods involve contact between customers and the manufacturer's employees. Customer-contact tasks are usually delegated to independent retail intermediaries such as stores, dealerships, and approved service suppliers (all of which are, of course, service business). There is more contact in the case of industrial goods, since these are often sold directly rather than through intermediaries.

In contrast, almost all services entail direct contact with the service supplier, usually in person or else by mail or telephone. Frequently the demeanour and behaviour of service personnel play an important role in determining whether or not customers are satisfied.

Customer involvement in production: Service operations can be divided into "front office" and "back office" components; customers are exposed to the former, not to the latter. In high contact services that are delivered directly to the customer—such as passenger transportation, health care, and restaurants—the front office represents a relatively large proportion of the total service operation.

Interactions among marketing, operations, and human resources: A distinction needs to be made between the marketing function and the marketing department in a service firm. The former embraces all activities experienced by customers. The department, by contrast, is simply an organisational unit that is responsible for some (but not necessarily all) of the marketing activities performed by the firm.

Problems in controlling product quality and consistency: Since many services are consumed as they are produced, the final "assembly" and delivery of product elements must take place under real-time conditions. Mistakes and shoddy work in the front office are likely to be noticed by the customer before they can be caught and corrected by a quality-control inspector. In contrast, there is a better chance of catching such problems in the back office or in a manufacturing plant.

Absence of inventories: Since a service is a deed or performance rather than a tangible item that the purchaser gets to keep, it cannot be inventoried. Unused capacity in a service business is like having a running tap in a sink with no stopper. The flow is wasted unless customers are present to receive it. And when demand exceeds

SNAPSHOT

Differences between Goods and Services

GOODS	SERVICES
◆ Tangible	◆ Intangible
◆ Standardised	◆ Heterogeneous
◆ Production separate from consumption	◆ Simultaneous production and consumption
◆ Non-perishable	◆ Perishable

Refer Zeithaml V. A. and M. Bitner (2000). *Services Marketing*. 2nd ed. New Delhi: Tata McGraw-Hill.

capacity, customers are likely to be sent away disappointed, since no inventory is available for backup. Finding ways of smoothing demand levels to match available capacity is thus a key task for marketers in capacity-constrained service firms that face significant variations in demand. Examples include transportation, lodging, and repair shops.

Importance of the time factor: Although convenience of location is often stressed as a key success factor for many services, convenience of scheduling is often just as important. The service must be available when the customers want it as well as where they want it—an important rationale for extending the working hours in many service businesses. A second aspect of timing concerns the duration of service delivery from initial request to final conclusion of the service transaction.

Structure of distribution channels: Unlike goods, which require physical distribution channels for moving goods from factory to customers, many service businesses either use electronic channels or combine the service factory retail outlet and consumption point into one.

However, a distinction should be drawn between service execution and concept design. As a result of the high capital cost of achieving broad distribution of services to numerous "factories in the field", there is a growing trend for developers of a service concept to contract out execution of that concept to individual entrepreneurs working as franchisees.

Key Success Factors in Services Marketing

What does it take to succeed in marketing? Each situation, of course, has its own specific requirements. However, there are a number of key factors that tend to characterise successful service businesses, as discussed below.

Clearly articulated positioning strategy: Once a service firm has selected a positioning strategy, it must articulate this clearly to both prospective customers and its own employees.

Clarifying the elements of the product package: As concluded by a study, service is redefined as all actions and reactions that customers perceive they have purchased. The product package can usually be divided into the core service offered by the firm, such as transportation of goods between two points, and various supplementary services provided to customers, such as acceptance of orders, billing and documentation, problem solving, and other service extras.

Emphasis on quality: Developing a quality service begins with determining the customer's needs (which may vary on a segment-by-segment basis). These needs must be transformed into service specifications, and actual execution of service procedures must then conform to specifications. It is important that the firm (say a consulting company) communicates clearly to customers what level of service they should expect and adhere to this level, for customer satisfaction tends to reflect the difference between expectations and reality. Failure to meet expectations is almost sure to result in disappointment.

Customer retention: Few service firms rely on one-time sales for the bulk of their business. Getting repeat business is often more important to financial success than winning new customers—not least because obtaining a repeat sale from an existing customer usually involves only a fraction of the effort entailed in acquiring a new customer.

Collecting and using customer data: Most service firms collect extensive data on their customers for operations and accounting purposes (consider how much a hotel learns about each guest, or how much data a bank collects on a customer's background and use of the bank's services). These databases are potentially marketing goldmines.

Close relations among marketing, operations, and human resources: In the services business, operation is the pivotal function. It not only creates the product but is also responsible for its delivery.

Soliciting feedback from customers and employees: Feedback from customers helps the firm determine whether or not it is doing a good job. It may also provide insight into ways of improving the quality of service and even ideas for new services not currently offered.

Top management commitment: Without the support of the Chief Executive Officer and other members of the top management team, it is almost impossible for a service organisation to achieve and maintain a strong marketing orientation.

In many successful service firms, top executives practise what has been called "management by walking around", spending time at service delivery locations in an effort to stay close to both their employees and their customers.

DISCUSSION FORUM

- Discuss the difference between goods marketing and services marketing.
- Explain the key success factors in services marketing.

EXPORT MARKETING

The liberalisation policy of the government since July 1991 has created a most congenial atmosphere for exports. Both exports and imports are almost free from being subject to negative lists. Many items, therefore, can be exported without a licence.

The export industry is another sector which holds great promise for any type of enterprising entrepreneur. During 2001–02, the registered SSI sector accounted for 87% of the total exports with only 14.5% of the exporting units. It is one of the direct and tangible outcomes of the liberalisation policy. However, India's global market share continued to remain low. There is a need for stepping up export activity for obtaining an equitable share in the global market. During 2004–2005, a great shift in the composition and diversity of destinations of export goods is visible, reflecting growth of industrialisation and globalisation in the country. Increase in the value of exports from SSI is given in Table 10.1.

TABLE 10.1 Value of Exports from SSI

Year	*Total Exports*	*SSI Exports*	*% of SSI of Total*
1980–81	6,711	1643	24.5
1990–91	44,042	17785	30.0
1996–97	1,17,525	39,250	33.4
1999–2000	1,59,561.00	54,200.00	33.9

Source: Development Commissioner SSI

Under the liberalised conditions of expanding opportunities, SSI's contribution to this sector may be of enormous significance. Prior to the rush of foreign inflows, export business was the main source of earning the much-needed foreign exchange for the country. Today, the scenario, as far as forex reserves are concerned, is different, but export continues to be a desired objective. That is why the government is eager to give more and more incentives to the export sector.

An entrepreneur in the export business needs to know the export environment and procedures of not only India but also of the country or countries to which the firm's products or services have to be exported. The entrepreneur should possess knowledge of not merely the needs and wants of people of that country, but also their culture and customs.

Foreign Trade (Development and Regulation) Act, 1992

The act defines export as taking out of India any goods by land, sea or air. This definition does not specify the form of goods. Hence, it includes re-export of imported goods in any form or condition.

Foreign Exchange for Export Promotion

An Act to provide for the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India and for matters connected there with or incidental there to. The foreign exchange rules for export promotion have been totally liberalised. Exchange is now available for business visits, participating in fairs and exhibitions, remittances, purchase of documents, and so on. All exporters other than export houses, are allowed to open an office overseas or have a representative abroad, the condition being that this would lead to the earning of additional foreign exchange.

Foreign Industrial and Technology Agreement

The Reserve Bank of India is now empowered to grant approval for foreign investments upto 51per cent of foreign equity in high priority industries and trading companies primarily engaged in export activities. The RBI will also automatically approve foreign technology agreement involving payment upto Rs 1 crore.

Basically, exporters may be placed in two categories:

(i) Manufacturer-exporters

(ii) Merchant-exporters

To become a manufacturer-exporter you need not go the roundabout way. You may start exporting directly on your own from the very beginning. It all depends on your preparation and managing capability. Merchant-exporters, as the name suggests, do not manufacture any goods. They export goods produced by other agencies.

There is another indirect way of exporting goods—by supplying to the established export houses within the country. It is like supplying finished goods to merchant-exporters. This way you can avoid all the hassles of fulfilling export formalities.

There are two categories of exports.

(i) Outright (Sale) exports

Normally, most exports are made on an outright sale basis against a firm price and no return of the unsold goods is made.

(ii) Consignment exports

Here the importer abroad is at liberty to return the unsold goods, although exports may or may not be against a firm price.

Export Incentive Schemes

The system of export incentives or assistance like Cash Compensatory Support (CCS) or Export Import (EXIM) scrip licences has been abolished.

Procedural Simplification

Simple procedures both for exports and imports have been introduced. Regional licensing authorities have been empowered for the purpose. A number of documents have been standardised. The new documents are fewer in number. There is now only one application form for export licenses.

New Markets

In tune with the new liberalisation policy, India has opened new markets by allowing trade with South Africa, entering into new agreements with the CIS (Commonwealth of Independent States) countries, and also by resumption of rupee trade to a limited extent with the Russian Federation.

For entering the export business, there is no qualification and age bar. There is absolutely no gender bias. Finance can also be managed. Verbal and written communication ability should be good. Initiative and drive should be present in abundance as well as an enterprising spirit. Having decided to be in the export business choose between manufacturing and merchandising. Check that the following conditions are fulfilled.

(a) A good office in a business locality, equipped with telephone and fax.

(b) Ensure that the necessary expertise is available with respect to export documentation, marketing, shipping, and so on.

(c) Exporter's Code Number issued by RBI has to be obtained through an application, supported by relevant documents.

(d) The Importer-Exporter Code Number (IEC) has to be obtained from the Regional Licensing Authority under the office of the Director-General of Foreign Trade (DGFT), Ministry of Commerce.

(e) The unit must be registered with the respective Export Promotion Council to entitle you to the benefits granted under the EXIM Policy. There are different EPCs for different kinds of goods. Ascertain under the purview of which council your items fall.

(f) Open a current account with an authorised foreign bank.

(g) Registration with sales tax authority.

These are the most essential requirements to be fulfilled before starting any kind of export business.

These are to be followed, in sequence, by a market study, identifying buyers, going through with the enquiries, sending samples or arranging inspection visits, scrutinising export orders, arranging money from banks, packaging befitting the international standards, pre-shipment inspection, excise and customs clearance, booking the material, obtaining insurance cover, submission of documents to banks, and finally collecting payment through bank.

It is advisable to take the assistance of Indian agencies and organisations for identification of foreign markets. Foreign trade agencies and delegations, trade journals and literature, industrial exhibitions, and so on may provide valuable clues.

While identifying the market, due consideration must be given to factors such as the size of the market, characteristics of demand, consumer requirements, trade channels and the cultural and social differences that may affect the business. The existing competition, if any, and potential competition from other countries has to be studied carefully. A clear-cut marketing strategy has to be chalked out. It embodies the selection of a target market, determination of the product, as well as the price, promotion and distribution policies that the enterprise must implement. This calls for drawing up a concrete export-marketing plan as a step-by-step guide to successful implementation of the strategy taking all the involved issues into consideration.

Special emphasis has to be placed on high quality and a timely delivery schedule. Quality should be of global standard. If quality is maintained, low labour costs in India lend a competitive edge in the international market. However, low labour costs may also result in a low-quality product. Obtaining an ISO 9000 certification will enhance credibility and lead to easy acceptance in the international market.

Sources of Finance

Financial assistance is provided by many organisations—EXIM Bank, ICICI, IDBI, NSIC and a majority of the commercial banks. There are two types of export finance available for exporters—pre-shipment and post-shipment finance.

Pre-shipment finance

(i) Packing credit
(ii) Advance against cash incentives
(iii) Advance against red clause L/Cs and
(iv) Advance against deemed exports

Post-shipment finance

(i) Foreign bills negotiation/purchase
(ii) Advance against foreign bills for collection
(iii) Advance against cash incentives and duty drawbacks
(iv) Advance against International Price-Reimbursement Claims (IPRC)
(v) Post-shipment Credit in Foreign Currency (PSCFC)

These are fund-based limits as money is extended as soon as the formalities are completed. There are also non-fund-based limits to exporters to enable them to fulfil their export commitments in the form of various types of guarantees—bid bonds, performance guarantees, and so on. In order to avail export finance the following eligibility conditions have to be fulfilled

(i) All exporters must posses the Exporters Code Number issued by RBI and also the Import-Export Code number.
(ii) The exporter should be in possession of valid export orders.
(iii) The exporter should be able to satisfy the bank that he has the wherewithal to fulfil the export order within the stipulated time limit.
(iv) Goods intended for export must be permissible for export as per the export policy.

All the export finance from the bank is covered under Whole Turnover Packing Credit Guarantee (WTPCG) and Whole Turnover Post Shipment Guarantee (WTPSG) of ECGC (Export Credit Guarantee Corporation), for which monthly premium is deducted from the exporter's account.

When you decide to export, you must formulate an export strategy. This will tell you where you are going and how you should get there. The strategy and preparation for export marketing is shown in Figure 10.2.

You should also make an export marketing plan to implement the strategy. Before making the plan, you should gather the basic data and analyse it. It should focus on your marketing objectives, market segment, and positioning of your product.

You should also do an analysis of your strengths, weaknesses, opportunities, and threats (SWOT). This would help in knowing your competitive advantages as well as prospects for sales and profitability.

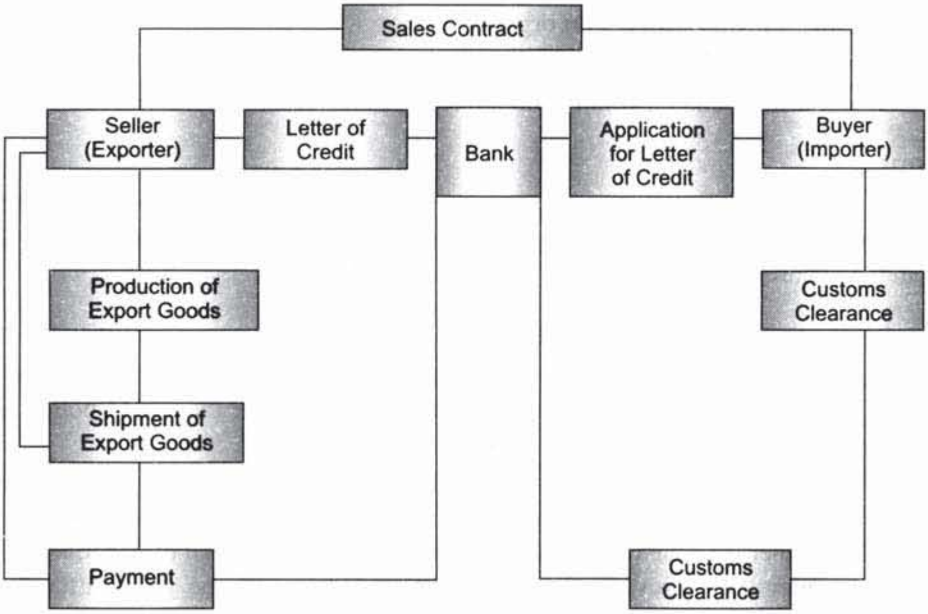

Figure 10.2 ■ Strategy and Preparation for Export Marketing

Market Segmentation

It is important that you decide to whom you want to sell your product/s. Different consumer groups exist varying in levels of income, age, lifestyle, occupation, and education.

Market Research

You, as a small-scale entrepreneur, cannot afford to collect data on export markets and export potential. So, you should get published data to assess the market, after evaluating it for reliability and accuracy.

Product Characteristics

Next, you should consider the product you want to export. Many products must undergo significant modifications if they are to satisfy customer and market requirements abroad. Some products require changes to increase their appeal in export markets.

Export Pricing

You should consider additional costs like international freight and insurance charges, product modification costs, import duties, commissions, and foreign exchange risk coverage, which are not there for the domestic market, while setting an export price.

Distribution Channel

You should also consider distribution options like

1. exporting through a domestic exporting firm; or

2. setting up your own export organisation; or
3. selling through a representative abroad.

The choice will depend on your export strategy, resources, and export market.

Working Document

Merely formulating a marketing plan is not enough. A working document should be constantly reviewed and revised as you acquire more experience, data, and feedback from the export market.

Procedures, Formalities, and Documentation

The procedure for registration with the Export Promotion Councils (EPCs), Federation of Indian Export Organisations (FIEOs) and others under the EXIM policy is given in Annexure 10.1.

The new export-import policy makes it necessary to obtain licenses to export or import certain specified items. A Registration-Cum-Membership Certificate (RCMC) number is needed for getting an export licence or to avail of benefits/concessions under the policy. Such registration will, however, be given after the exporter/importer has become a member of an EPC.

The registration as an exporter is of two kinds, namely, manufacturer exporter and merchant exporter. An exporter may obtain a RCMC from any one of the EPCs relating to his main line of business. Hence, only one registration is required even if the exporter is engaged in exporting products falling in more than one group.

Obligations

The registered exporters are under certain obligations.

1. To furnish monthly returns of their exports.
2. To abide by such other conditions including floor spore condition and export obligation, if any
3. To avoid indulging in any fraudulent, unfair, or corrupt practices/commit breach of any law.
4. To fulfil or utilise satisfactorily any quota allocated for export, and so on.

Facilities and benefits

Exporters are entitled to such facilities and benefits as may be provided under the export-import policy. They are also given a number of facilities by the Export Promotion Councils to accelerate their effort. These facilities include raw materials, spot disposal, trade information, foreign samples, trade promotion, brand publicity, export assistance, membership of trade delegations, study-cum-research, attend seminars and conferences, and consignment wise inspection.

Applications and application forms

Application for allotment of a code number has to be made in Form CNX which includes a Declaration for Exporters code (RBI) number about the applicant's not being on the caution list, undertaking about income tax, permanent account number/ GI number for exporters (RBI) code number of associate firms RBI code number and

Bank's Certificate to be sent with application for IEC number (Importer/Exporters Code).

Application for registration with Export Promotion Councils has to be made in the approved format. There are separate formats required for registration with different Export Promotion Councils, and separate proformas of undertaking registration.

It is required to get a token acceptance by the buyer on the proforma invoice given by you and confirmation by you as an exporter, after

- you have identified product/s and market;
- discussions with any buyer have materialised and reached a point of confirmation of an order or receipt of an order form; and
- a request to you to send a proforma invoice to enable the buyer to open a letter of credit according to your terms and conditions.

Receipt of the proforma invoice signed by the buyer completes the formalities.

Pre-shipment formalities

The Export (Quality Control and Inspection) Act was enacted by the government of 1963 amended in 1984 to ensure that the image of India made products in overseas market was not spoiled by any exporter by supplying sub-standard material. Certain items covered under compulsory quality control and pre-shipment scheme are not allowed to be exported without a certificate from the Export Inspection Agency by the Customs and shipping formalities.

These formalities are more or less the same at all the major ports in the country though there are some minor variations related to port trust rules and regulations.

A general idea about the different stages of custom examination and procedural/documentation formalities to be observed for clearance of export cargo for loading on vessel and final shipment is as under.

After the documents are passed by the customs department and necessary charges are paid, goods could be shipped and the entrepreneur should send 'Shipment Advice' in the prescribed format to the importer.

Box 10.2 Documents Required for Exporting

- Bills of Exchange
- Bills of Lading
- Commercial Invoice
- Original Letter of Credit, if any
- Customs Invoice
- Insurance Policy/Certificate
- Packing List
- Foreign Exchange Declaration Forms
- Bank Certificate of Export Realisation
- Other relevant documents

Submission of documents to bank

For purchase/collection/negotiation under L/Cs, you must, after shipping the goods, hand over the relevant documents to your bank for onward dispatch to the overseas correspondent bank, which will arrange payment of the same to your banker. You can receive no payment directly except in cases of general permission granted by RBI.

Documents are handed over to the bank with a request either to negotiate the documents if they are drawn under the letter of credit or to purchase the documents where the bank has granted pre-shipment facility to you.

The various formats for application for RBI code number, bank's certificate, importer/exporter code number, registration with export promotion council and many others may be collected from the relevant authorities.

Organisational Export Assistance

Export marketing is a highly specialised activity which requires organisational support at various stages, including selection of product/s, identification of overseas markets and customers, selling techniques and incentives, assistance and facilities granted against export.

There would also be a need for orientation of different policies concerned with export and import. The various organisations or institutions supporting export are mainly connected with foreign trade. These organisations are grouped together as given in Box 10.3.

Box 10.3 Various Organisations Supporting Exports

- Policy and service support organisation
- Commodity specialisation organisation
- Training and reasearch institutions
- Trading/service corporations
- Financial institutions
- Export promotion zones

1. Policy and service support organisation

(a) *Ministry of Commerce*

It has, with active cooperation of the Ministry of External Affairs, created a network of commercial sections in Indian embassies and high commissions in various countries.

It has set up an Exporters Grievances Redressal Cell to assist exporters in dealing with their grievances affecting exports. The ministry carries out its responsibilities and activities through advisory bodies, organisations, and so on.

(b) *Ministry of Textiles*

The Ministry of Textiles is primarily responsible for policy formulation, development, regulation, and export promotion of the textile sector including sericulture, jute, and handicrafts. It also has a separate export promotion advisory board. There are four advisory boards under the Ministry of Textiles.

(i) All India Handloom Board

(ii) All India Handicrafts Board

(iii) All India Powerloom Board

(iv) Wool Development Board

2. Commodity specilisation institutions

The government has established a number of organisations for improving production and promoting the export of commodities and products/services, which make considerable contribution to our foreign exchange earnings. These specialised institutions are, in most cases, financed/controlled by the government. These are as follows.

(i) Export Promotion Councils (EPCs)
(ii) Commodity Boards (CBs)
(iii) Development Authorities
(iv) Miscellaneous organisations

The Federation of Indian Export Organisations (FIEOs), though not counted among the EPCs, has the same functions as any EPC and is discussed in Chapter 4.

(i) *Export Promotion Councils*

The main activities of the EPCs are as follows.

(a) Registration of exporters and issue of registration-cum-membership certificate
(b) Providing a forum and link between the government and their members for consideration and implementation of schemes for export production and marketing
(c) Collection and dissemination of information primarily on export opportunities
(d) Sponsoring and inviting business delegations, sales teams, study teams for developing exports
(e) Arranging distribution of raw materials, marketing assistance, or allocation of scarce items for export production
(f) Allocation of export quotas for items like textiles
(g) Fixation of floor price (minimum export price)
(h) Arranging buyer-seller meets
(i) Foreign publicity through schemes
(j) Any other issue covering production and marketing of products under its purview

(ii) *Commodity Boards*

Commodity Boards are also to be regarded as Export Promotion Council.

(iii) *Development Authorities*

There are two Development Authorities namely; a) Marine Products Export Development Authority and b) Agricultural Products Export Development Authority.

3. Training and research institutions

(i) *Indian Institute of Foreign Trade (IIFT), New Delhi*

It is the primary institution which gives training in export marketing techniques. It has several programmes including a full-time postgraduate diploma in International Trade and a Master's Programme in International Business. It conducts a number of short-duration training programmes ranging from 2–3 to 15–21 days for executives.

(ii) *Indian Institute of Packing (IIP), Mumbai*

It organises programmes on packaging technology. It also provides technical advice on the problems of packaging faced by industry and trade as well as facilities for testing and evaluation of packages and packing material.

(iii) *National Institute of Fashion Technology (NIFT), New Delhi*

NIFT, New Delhi, works under the Ministry of Textiles for human resources development for the garment industry. It conducts professional programmes for apparel merchandising and marketing, fashion design, and garment manufacturing technology. It also provides consultancy services.

Besides, there are other institutions for training relating to production or marketing, such as the local Chamber of Commerce, SISIs, and NIESBUD.

4. Trading/service corporations

A number of trading and service corporations under the Ministry of Commerce and Textiles deal especially in exports/imports.

The State Trading Corporation Ltd. (STC) was primarily established to conduct foreign trade in an organised and collective basis with trading companies in eastern Europe and the former USSR. Now, due to liberalisation of foreign trade, disintegration of the USSR, and opening up of the new CIS states STC's, functions have undergone a sea change. The STC in Delhi and several regional and foreign offices have a special scheme for business associates and exporters, to provide them with financial and marketing assistance to sell abroad.

Some of the other corporations are as given below.

(i) Minerals and Metals Trading Corporation Ltd. (MMTC)
(ii) Mica Trading Corporation (MITCO)
(iii) Spices Trading Corporation Ltd.
(iv) Tea Trading Corporation of India Ltd.
(v) Project and Equipment Corporation of India Ltd.
(vi) Central Cottage Industries Corporation of India Ltd.
(vii) Handicrafts and Handlooms Export Corporation of India Ltd.
(viii) National Textile Corporation (NTC)
(ix) Cotton Corporation of India (CCI)
(x) National Handloom Development Corporation.

5. Financial institutions

There are two primary institutions for providing credit and finance and justifying export credit risk—EXIM Bank and ECGC. Besides these, other commercial banks and institutions such as IFCI, ICICI, and IDBI also provide finance for export and import.

(i) *Reserve Bank of India*

The RBI with its headquarters in Mumbai and several regional offices is the apex, central bank to authorise, extend, and regulate export credit and transactions. It has framed and administered several schemes for export promotion by providing relending facilities, and authorising other banks to extend credit.

All export activities start from registration with RBI, by obtaining the Exporter's Code Number.

(ii) *EXIM Bank*

The Export and Import Bank of India is the apex institution for project finance and provides direct finance. It also coordinates the working of institutions engaged in financing export/import of goods and services. It has its headquarters in Mumbai and has several regional offices as well.

The EXIM Bank's lending emphasis is on deferred export credit for medium and long terms. It extends suppliers' credit, overseas buyer credit, lines of credit, and relending facilities to banks overseas.

The bank is also an intermediary between the Indian exporter and the overseas forfeiting agency. Forfeiting is an export finance option for supplier's credit.

(iii) *Export Credit Guarantee Corporation Ltd. (ECGC)*

ECGC also has its head office in Mumbai and has several regional offices too. It is the only institution which provides insurance cover to Indian exporters against the risk of non-realisation of export payments due to commercial and political risks involved in export on credit terms.

These are various other export promotion organisations especially for the small industries, which directly contribute about one-third of India's exports. These organisations are at the central as well as State level.

The Development Commissioner, Small Scale Industries (DCSSI) at New Delhi and a network of SISIs (Small Industries Service Institutes) and extension centres located in almost all States provide export promotion services to SSI and cottage units.

The other organisations are Directorates of Industries, which are departments of State governments, National Small Industries Corporation (NSIC), and exclusive export corporations in various States.

6. *Export promotion zones (EPZs)*

The EPZs have been set up to provide an internationally competitive duty-free environment for export production at a low cost. This enables the products of EPZs to be competitive, both quality-wise and price-wise, in the international market. There are seven EPZs in India: Kandla (Gujarat), Kochi (Kerala), Santa Cruz (Mumbai), Chennai (Tamil Nadu), Falta (West Bengal), Vishakapatam (Andhra Pradesh), and Noida (U.P.).

Indian Exporter's Directory

This is a most useful publication for anyone interested in buying products from India. It contains full information to enable buyers to home in on Indian exporters

Visit www.exim.indiamart.com to learn more about EXIM policy.

manufacturing and supplying quality products that they are looking for. This directory is being distributed across the globe.

Surveys and studies on various market potential focusing on selected products are available on request.

DISCUSSION FORUM

- Discuss the prevailing export environment and formalities and documentation required for exports.
- Explain the institutions set up in India for promoting export marketing.

SUMMARY

- Marketing can be defined as a process which identifies, anticipates, and satisfies customer needs efficiently and profitably in keeping with the objectives of the enterprise. Marketing is a specialised and dynamic area. It requires appropriate actions in response to market demands by developing suitable products and effective strategies.
- A large-scale business can have its own formal marketing network, media campaigns, and sales force, but a small unit may have to totally depend on personal efforts and resources, making it informal and flexible. Marketing can make or break a small enterprise.
- Although there are some tools, concepts, and strategies that can be generalised to all marketing situations, it is important to understand that marketing management tasks in the services sector differ from those in the manufacturing sector in several important respects.
- The liberalisation policy of the government since July 1991 has created a most congenial atmosphere for export. Both exports and imports are almost free from being subject to negative lists. Many items, therefore, can be exported without a licence. The export industry is another sector which holds great promise for any enterprising entrepreneur.
- The government has established a number of organisations for improving production and promoting export of commodities and products/services, which make a considerable contribution to the country's foreign exchange earnings.

KEY WORDS

- Brand
- Quality
- Credit
- Market survey
- Customer Relationship Management
- Customer Satisfaction Index
- Market segmentation
- Market research
- Marketing mix
- Product
- Promotion
- Price
- Costing
- Place
- Pricing
- Cost ladder
- Services
- Goods
- Inventory
- Distribution channel
- Positioning

- Customer retention
- Export marketing
- Foreign Trade Act
- Foreign Industrial and Technical Agreement
- Manufacturer-exporter
- Merchant-exporter
- Outright Export
- Consignment export
- Export incentive scheme
- Director General of Foreign Trade
- Pre-shipment
- Post-shipment
- Working document
- Bills of exchange
- Bills of lading
- Commercial invoice
- Letter of credit
- Customs invoice
- Insurance policy
- Packing list
- Foreign exchange declaration form
- Bank certificate of export realisation
- Export promotion zones
- Export Promotion Council
- Ministry of Commerce
- Ministry of External Affairs
- Commodity Board
- All India Handloom Board
- All India Handicraft Board
- All India Powerloom Board
- Wool Development Board
- Indian Institute of Foreign Trade
- Indian Institute of Packing
- National Institute of Fashion Technology
- EXIM policy
- EXIM Bank
- RBI
- ICICI
- IDBI
- IFCI
- Minerals and Metals Trading Corporation Ltd.
- Mica Trading Corporation
- Spices Trading Corporation Ltd.
- Tea Trading Corporation of India Ltd.
- Project and Equipment Corporation of India Ltd.
- Central Cottage Industries Corporation of India Ltd.
- Handicrafts and Handlooms Export Corporation of India Ltd.
- National Textile Corporation
- Cotton Corporation of India
- National Handloom Development Corporation

CASE STUDY

Case Study 10.1 Determining the Market Demand for a Health Club

Mr. Amit Sharma recently retired from the Central government services. A physical fitness enthusiast and lover of nature and environment, Mr. Sharma has been leading an active life, regularly going to the gymnasium every morning. His wife, Meena, regularly practices yoga in the house. She has been trained by a popular yoga guru when she was much younger. The Sharma's two sons are very well educated. They are married and stay abroad. Their third son is doing his final year in B.Com. in the local college.

Mr. Sharma has been planning to start a business of his own from the retirement benefits he has received from the Central government. He feels his third son may help him in the business after his graduation.

Mr. Sharma had always felt concerned about the low standard of physical fitness of an average Indian. During his early morning walks, Mr. Sharma would discuss with the people and found that starting a health club would offer a good business opportunity, besides fulfilling an important need of the community. He has visited many health clubs not only in India but also abroad and has a fair idea about the business.

Mr. Sharma with the help of his wife is planning to establish a gymnasium and a yoga centre in the health club to be located at Kolhapur, Maharashtra. He would initially cater to the needs of company executives and businessmen. He would later extend the scope of this venture to include housewives and working women too. He is optimistic that with the hectic lifestyle of the present-day business personals and the growing consciousness about good health, he would be able to attract a good number of customers. He is, however, aware of the financial investment required for the project and would like to be careful before taking any long-term decision in this regard. He would like to estimate the possible demand for this type of service and an indication of the financial returns that he can expect.

Case Question

Suggest a step-by-step procedure to estimate the market demand for this type of activity and also people's attitude towards the idea.

Case Study 10.2 "Shruti Darshini"—Preparing Market Feasibility Report

Shruti was the only daughter of her parents. Her parents, settled in Mysore, Karnataka, for the last 25 years, ran "Shruti Darshini", a vegetarian eating joint, in front of a group of colleges. The Darshini was open from 7 a.m. to 10 a.m. and again from 12 p.m. to 5 p.m. It provided delicious, hygienically prepared vegetarian items to its clients, mostly college staff and students. Shruti also helped her parents after her law classes and took a keen interest in the business.

After graduating in law, Shruti got married to Suresh, an MBA graduate working as business executive in a local firm. Shruti's parents wanted a son-in-law who would help Shruti run "Shruti Darshini". They felt their business could really flourish if their son-in-law joined their business. Suresh also found the proposal interesting and was ready to join the business since it was doing very well. However, Suresh was quick to point out that the contemporary concept of a "Darshini" had changed. He suggested introduction of non-vegetarian items, addition of a beer bar, and keeping the café open from 7 a.m. to 11 p.m. Shruti's parents were not keen on the non-vegetarian items and beer bar. However, Suresh, being a professional, declared that he would carry out a market research. He would segment the market and test market the products before taking any drastic step. There was also a suggestion to invest in proper advertising.

Shruti's father, being an intelligent and enterprising businessman, exhibited clear vision. He accepted Suresh's views, in principle, but insisted that a clear plan be prepared. The plan should give the rationale behind each step, the cost and time required for implementing that step, anticipated income from the activity, and other such details before Suresh's proposals could be considered for implementation or were rejected.

Case Question

Cast yourself in the role of Suresh and prepare the plan. Make suitable assumptions wherever necessary.

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ANNEXURE 10.1 SALIENT FEATURES OF EXPORT-IMPORT POLICY FOR THE SMALL-SCALE SECTOR

With a view to recognize established exporters so that they may build marketing infrastructure and expertise required for export production, merchant as well as manufacturer exporters, EOU etc. are recognized as Export House, Trading Houses, Star Trading Houses and Super Star Trading Houses on the basis of certain criteria as laid down in the Export-Import Policy 1997-2002. The eligibility criteria for such recognition is based either on the basis of FOB or Net Foreign Exchange value of exports of goods and services made directly by the exporters during the preceding three licensing years or the preceding licensing year. In an attempt to encourage exports from the small-scale sector, the exports made by small-scale sector manufacturer-exporters are given triple weightage for the purpose of recognition as EG/TH/STH/SSTH. Accordingly, in terms of provisions contained at para 12.7(a) of the EXIM Policy 1997-2002 (amended upto 31/3/99), triple weight age on FOB or net foreign exchange on the export of products manufactured and exported by units in the small scale industry (SSI)/ Tiny sector/ Cottage sector and double weightage on FOB or net foreign exchange to merchant exporter exporting products reserved for SSI units and manufactured by units in the SSI/Tiny Sector is give. These Export Houses, Trading Houses, etc. are entitled to certain benefits under the current Export-Import Policy.

1. Special Import License (SIL)

Exporters recognized as Export Houses, Star Trading House, Trading Houses, etc. are eligible for grant of Special Import License (SIL) @ certain percentage of their FOB value of exports/NFE. However, 2 percent additional SIL is granted for exports of products manufactured by units registered as SSI, provided the exports of these products is more than 50% of the exports during the period (provisions contained in para 12.7(b) of Hand Book of Procedure 1997-2000 refers).

2. Eligibility Condition for Small Scale Exporters for SIL

In case of small scale exporters holding ISO 9000 (Series) or IS/ISO 9000 Series of quality certification, the FOB value (excluding deemed exports) of exports for becoming eligible for Special Import License (SIL) @ 4% of the FOB value of exports is Rs. 3 crores and above in the preceding licensing year or on an average FOB value of Rs 1 crores or above during the preceding three licensing years instead of the limit of Rs. 5 crores and Rs. 2 crores respectively prescribed for others (Para 11.11 (a) & (b) of Hand Book of Procedures 1997-2002 refers in this context).

SALIENT FEATURES OF THE EXIM POLICY-1997–2002 (AS AMENDED ON 31/3/99)

3. Duty Exemption Scheme made Flexible

A provision for annual advance license has been made to reduce the avoidable interface between the exporter and the DGFT. This facility would provide necessary flexibility in the import of duty free inputs. The exporter would now be able to import any prescribed inputs as per input-output norms right through the year without approaching DGFT. The license would be issued without stipulation of minimum value addition.

4. Benefit of Zero Duty EPCG Scheme Extended to Other Sectors

Threshold limit for EPCG Zero-Duty Scheme for several sub-sectors under the Chemicals, Plastics and Textiles sectors has been brought down from Rs. 20 crores to Rs 1 crore. No additional Customs Duty would be charged on import of Capital Goods under Zero-Duty EPCG Scheme in Marine and Electronics Sectors.

5. Further Rationalisation of Export Promotion Zones

Net foreign exchange earning as a percentage of exports (NEEP) requirement for the units operating in EPZ has been made uniform at 20%. However, for Hardware Units, Biotechnology and Toys sectors, this NFE requirement has been reduced to positive NFEP. The entitlement of DTA sale has been increased to 50% of the FOB value of the preceding year.

The procedure for operation of the units in the EPZ has been simplified considerably and a number operations have been permitted on the basis of self-certification.

6. Export House/Trading House/Star Trading House/Super Star Trading House

All such exporters who attain Export House/Trading House/Star Trading House/Super Star Trading House status for three successive terms or more shall be eligible for Golden Status Certificate which would enable them to enjoy all the benefits in perpetuity irrespective of their actual performance in future.

7. Other Steps

In line with the facility of free imports of components for textile garments sector, leather garment and handicraft exporters have been allowed export of samples up to US$10,000 per consignment has been allowed. Limit of import of bonafide technical and trade samples appearing in restricted list has been increased from Rs. 3,000/- per consignment to Rs. 1,00,000/- per consignment.

8. Integration of the Indian Economy with the Global Economy

To ensure easy access to inputs and to integrate with the global economy as many as 894 items has been added to the free list of imports. 414 additional items have also been put in the SIL list of imports.]

Out of aforesaid 894 items shifted to OGL list, 245 items are having small-scale angle either due to their reservation for manufacture in the small-scale sector or having a strong production base. Out of 245 items, 158 items pertained to Reservation list and 87 are having strong small-scale production base. Further, these 158 items pertained to 76 product groups, which are reserved for manufacture in the small-scale sector. Out of these 76 product groups, certain items in respect of 12 reserved items were already under OGL. As such, there was a net addition of 64 reserved items to OGL list on 1/4/99.

Prior to 3/2/99, 518 items reserved for manufacture in the small scale were allowed for import under OGL. Subsequently, 6 items were dereserved on 3/2/99. Therefore, the total reserved items allowed for import prior to 31.3.99 were 512 and as on 1/4/99, 576 (512 + 64) items are allowed for import under OGL. Liberalisation of Import Policy, for small-scale sector means easy availability of raw material and other inputs for the SSI units. It will also encourage SSI units to become efficient and competitive in terms of Price and Quality so as to compete in the world market.

9. Free Trade Zones

Free Trade Zones will become Operational from 1.7.99. Units in free trade Zone shall be permitted to carry out any manufacturing or trading activities. They shall not be subjected to any predetermined value addition, export obligation, input-output/wastage norms. They shall be treated, as outside the Customs territory of the country and the Customs shall be manning only entry and exit points, Sale in the DTA will be permitted on payment of full Custom Duty.

Production Management in Small Business

11

A manufacturing unit in Karnataka. The picture shows a person managing the entire work station by adopting modern technology.

"The power that enables the firm to have some influence on price insures that imitators will not pass on the resulting gains to the public before the outlay for development can be recouped. In this way market power protects the incentive to technical development."

—J. K. Galbraith

Learning Objectives

- Explain production management in small business enterprise
- Discuss the functions of materials management
- Understand the various productivity improvement techniques
- Learn the concept of break-even analysis
- Introduce the TQM approach to business

PRODUCTION MANAGEMENT

Production management refers to the application of planning, organising, directing to the production process. Production can be defined as the "process through which goods and services are created". Therefore, we include both manufacturing and service organisations within the purview of production management. The essential features of production function are to bring together people, machines, and materials to provide goods and services thereby satisfying the wants of people at large. The production function or operation function is the primary function of an industrial enterprise. It is also known as a conversion process or a transformation process, which transforms some of the inputs into outputs, which are useful for the consumers. A simple production system is shown in Figure 11.1.

SNAPSHOT

- **Production System:** A system whose function is to convert a set of inputs into a set of desired outputs.
- **Production Management:** It refers to the application of management principles to the production function in an enterprise.

The basic techniques of analysis and improving the manufacturing and service organisation are the same. However, since service organisations have some special features, the management of such systems is slightly more difficult. Some of these special features are as follows.

Output from the service organisation cannot be stocked

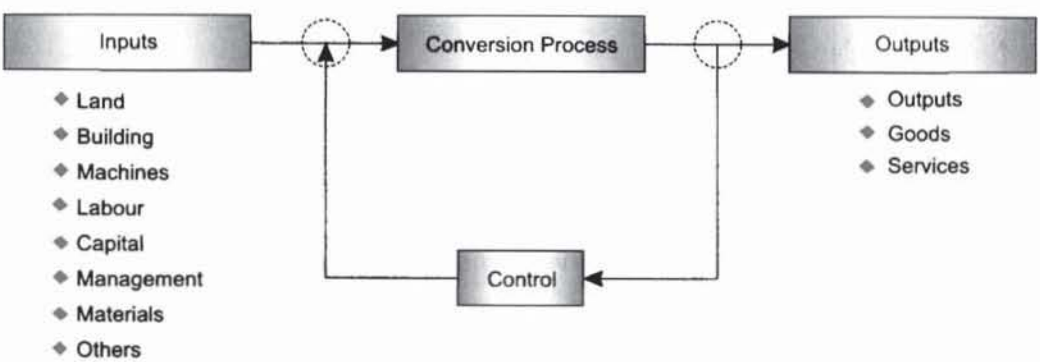

Figure 11.1 ■ A simple production system

- Demand for the service is variable
- Operation may be labour intensive
- Location of service operation is dictated by location of users.

Production management objectives can be grouped into performance objectives and cost objectives.

Performance objectives: These include the following.

- Quality: It is the extent to which a product or service satisfies customer needs. The output has to conform to quality specifications laid down before it can be accepted.
- Improve Productivity: output per unit of input.
- Effectiveness: It relates to whether a right set of output is being produced. Where efficiency may refer to "doing things right", effectiveness may mean "doing the right things".
- Capacity utilisation: percentage utilisation of resources in man-day, machines, shift, KWH, and so on.

Cost objectives: Attaining a high degree of customer satisfaction on the performance front must be coupled, with a lower cost of producing the goods or rendering a service. Thus, cost minimisation is an important objective of production. Costs can be explicit (visible) or implicit (hidden/invisible). These could be tangible in economic terms or intangible in social cost terms—such as delayed supplies, customer complaints, and so on. While managing production we must consider both visible and invisible, tangible and intangible costs and then long-term cost implications.

Plant Layout

A plant layout refers to the arrangement of machinery, equipment, and other industrial facilities—such as receiving and shipping departments, tool rooms, maintenance rooms, and employee amenities—for the purpose of achieving the quickest and smoothest production at the least cost. A good layout is more important when the product or materials used to make it are heavy or big, as in some engineering shops for example, sheet-metal working and woodworking operations. In woodworking the machines cut very fast. The time spent moving big and heavy pieces from the store to the shop, round the shop, and onto the machines may be five or six times as long as the cutting time. The time spent in moving and handling adds to the cost of the product but not to its value. You cannot always make the best layout—for example, in an old factory building—but there is one thing you can always do and that is make improvements.

Production Planning and Control (PPC)

No work can be done without planning. There are those who plan when the actual work is to be executed. They run about to collect all that is required, thus extending the period of working. There are others who plan well in advance and arrange for all that is required necessary before starting work. The advantages of the latter approach

Box 11.1 Objectives of a Good Layout

- Provide enough production capacity.
- Reduce material handling costs.
- Reduce congestion that impedes the movement of people or material.
- Reduce hazards to personnel.
- Utilise labour efficiently.
- Increase employee morale.
- Reduce accidents.
- Utilise available space efficiently and effectively.
- Provide for volume and product flexibility.
- Provide ease of supervision.
- Facilitate coordination and face-to-face communication where appropriate.
- Provide for employee safety and health.
- Allow ease of maintenance.
- Allow high machine/equipment utilisation.
- Improve productivity.

Box 11.2 Objectives of Production Planning and Control

- To deliver quality goods in required quantities to the customer in the required delivery schedule—to achieve maximum customer satisfaction at minimum possible cost.
- To ensure optimum utilisation of all resources.
- To ensure production of quality resources.
- To minimise the product throughput time or production/manufacturing cycle time.
- To maintain flexibility in manufacturing operations.
- To maintain optimum inventory levels.
- To coordinate between labour and machines and various supporting departments.
- To ensure effective cost reduction and cost control.
- To plan for plant capacities for future requirements.
- To remove bottlenecks at all stages of production and to solve problems related to production.
- To prepare production schedules and ensure that promised delivery dates are met.
- To establish routes and schedules for work.
- To contribute to the profit of the enterprise.

have led to development of production planning and control. The production planning and control function essentially consists of planning production in a manufacturing organisation before actual production activities start and exercising control activities to ensure that the planned production is realised in terms of quantity, quality, delivery schedule, and cost of production.

Phases in PPC Function

1. Planning phase

(a) Preplanning: This activity involves product planning and development, demand forecasting, resource planning, facilities planning, plant planning, plant location, and plant layout.

(b) Active planning: This involves planning for quantity, determination of product-mix, routing, scheduling, material planning, process planning, capacity planning, and tool planning.

2. Action phase

Execution or implementation phase—includes dispatching and progressing functions.

3. Control phase

This includes status reporting, material control, tool control, inventory control, labour output control, and cost control.

A small organisation has a limited number and variety of output. Therefore, the problem of planning and scheduling is relatively simple. Most workers in the unit are familiar with the output and the conversion process. Word of mouth is good enough for instructions for various operations. The volume of work in the unit is small and can be easily centralised under the personal supervision of a few men. Production planning and control comprises of several functions. The main functions or elements of PPC are given in Figure 11.2.

Work content and capacity determination

(i) Estimating: Using simple methods of work measurement, determine the work content of various operations and capacities of various workstations.

(ii) Loading and routing: With the help of work content and capacities decide the machines on which each operation is to be carried out or, in other words, plan the route for the product. Once we know the standard capacity of each machine/facility (85 per cent utilisation of a machine/facility capacity in a shift is considered a fair average), we can decide on how much load is to be put on each machine. The use of Gant loading chart will help for loading and routing.

(iii) Scheduling: Here we decide the exact time of starting and finishing of each operation.

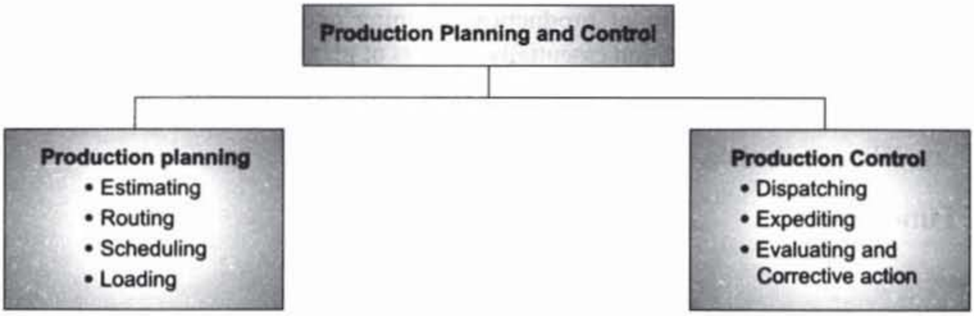

Figure 11.2 ■ Elements of PPC

Everette, Adam Jr. et.al., *Production and Operations Management*. Pearson Education, New Delhi.

(iv) Dispatch: This is the green signal to commence work. This can be done either by a work order or job card.

(v) Monitoring and control: To compare actual schedule with the planned schedule so that the appropriate action can be taken if necessary. Most of the time, some jobs will be running behind schedule while others will be ahead of schedule. A careful analysis of the situation would show that some of the work can be brought back on schedule by making a few changes or by using the spare capacity of those machines/facilities that are ahead of schedule.

The planning and programming phase is relatively simple since the problem of a reliable measure of work content has been solved. But even a crude plan is useless if the people concerned are not given clear instructions. This means having a simple system of paperwork to convey all the necessary information.

DISCUSSION FORUM

- Discuss in small groups the characteristics of modern production function.
- Explain the concept of "factories of the future".
- Explain the role of PPC in the engineering industry.

MATERIALS MANAGEMENT

Every production unit stocks a number of materials depending on the business it is in, for its own use (inputs) and also for selling (output). Stock are held in various stores/warehouses and shop floors. In stocks capital is blocked, which is very scarce for a small business. Hence the need for efficient management of materials. It refers to the movement of production materials from the stage of their acquisition to the stage of their consumption. The objectives of materials management are listed below.

- Purchasing materials and equipment at optimum price
- Faster inventory turnover
- Continuous supply of materials
- Reduced lead time

SNAPSHOT

Materials management refers to the movement of production materials from the stage of their acquisition to the stage of their consumption. The two main functions of materials management are:

- purchase management
- inventory management

- Reduced transportation cost
- Zero obsolescence
- Better supplier relationships
- Management of inventories

When purchasing materials, one should look at more than just the price. There are many other important aspects that need to be taken into account. These are as follows.

- Are the quotations comparable as regards quality, for example, material characteristics, precision, surface finish, anti-corrosion properties, and durability during long storage, and so on?
- Will the supplier deliver on time? Will he agree to change (in specifications) later, if this is necessary in an emergency?
- How are you going to pay for the supplies and will you be able to get credit?
- Will it be useful to form a buying group with other similar firms in your neighbourhood?

The *purchasing function* provides materials to the enterprise without which the wheels of machines cannot move. "Purchasing" is a managerial activity which goes beyond the simple act of buying and includes the planning and policy activities covering a wide range of related complementary activities. The purchasing function can be explained by a ***purchase cycle,*** the steps in which are given below.

(a) Recognition of need.
(b) Description of need.
(c) A suitable source is selected for the supply; sometimes a source has to be developed.
(d) Price and availability are determined.
(e) A purchase order is prepared and sent to the supplier.
(f) Acceptance of the purchase order is obtained from the supplier.
(g) Follow up is done to ensure timely delivery of the material.
(h) Receive the material, check the invoice, approve it for making payment to the supplier.
(i) Supplier receives the payment.

Inventory Management

The term inventory includes materials— raw, in process, finished, packaged, spares and others— stocked in order to meet an unexpected demand or distribution in the near future. Inventory includes the following categories of items.

(a) *Production inventories*: Raw materials, parts and components which are consumed in the production process and become part of the product.
(b) *Maintenance, repair and operating supplies (MRO) inventories*: These are consumed in the production process, but do not become part of the product (for example, lubricating oil, soap, machine repair parts).

(c) *In-process inventories*: These are semi-finished products found at various stages of the production operation.

(d) *Finished goods inventories*: These are completed products ready for shipment.

Inventory Costs

1. Ordering costs

Cost of placing an order with a vendor of materials

(a) Preparing a purchase order

(b) Processing payments

(c) Receiving and inspecting the material

Ordering from the plant

(a) Machine set-up

(b) Start-up scrap generated from getting a production run going

2. Carrying costs

Cost connected directly with materials

a. Obsolescence
b. Deterioration
c. Pilferage

3. Financial costs

a. Taxes
b. Insurance
c. Storage
d. Interest

Inventory Control Techniques

Several techniques of inventory control are in use and it depends on the convenience of the firm to adopt any of the techniques. What should be stressed, however, is the need to cover all items of inventory and all stages, that is, from the stage of receipt from suppliers to the stage of their use. The following points should be kept in mind while managing the inventory.

(a) **Shortage of inventory:** This gives rise to stock out cost. This includes cost of customer dissatisfaction, down time cost, change over cost, opportunity cost and so on.

(b) **Excess inventory carrying cost:** If large inventories are carried as an insurance against stock outs, large capital is blocked. This results in a high inventory carrying cost.

The techniques most commonly used for inventory control are the following.

(a) Always Better Control (ABC)

(b) High, Medium and Low (HML)

(c) Vital, Essential, and Desirable (VED)
(d) Scarce, Difficult, and Easy to obtain (SDE)
(e) Fast moving, Slow moving, and Non-moving (FSN)
(f) Economic Order Quantity (EOQ)
(g) Max-Minimum System
(h) Two Bin System
(i) Materials Requirement Planning (MRP)
(j) Just-in-time (JIT)

(a) ***ABC analysis*:** Inventory in an organisation can be classified into three categories— A, B, and C. On the basis of the annual consumption in monetory value. 'A" items will be of high value, "B" items will be of medium value, and "C" items will be of low value. There is no hard and fast limits for these categories, and they will vary from organisation to organisation and even from product to product. However, we can have the following categorisation.

Category	Value	No. of Items
A	70%	10%
B	20%	20%
C	10%	70%

Having once determined the categories, the intensity of control in each case can be different.

This classification is also referred as Pareto Analysis (after the Italian philosopher and economist).

(b) ***High, Medium and Low (HML)*:** The High, Medium and Low (HML) classification is based on the unit value of the item. The classification follows the same procedure as is adopted in ABC classification. The items of inventory should be listed in the descending order of unit value and it is up to the management to fix limits for three categories. If a part is High value, it is given the 'H' classification, if it is of Medium value it is given the 'M' classification and if it is of low value it is given the 'L' classification.

(c) ***Vital, Essential and Desirable (VED)*:** In ABC, classification, inventories are classified on the basis of their consumption value and in HML classification the unit value is the basis, where as criticality of inventories is the basis for Vital, Essential and Desirable classification. VED classification is done to determine the criticality of an item and its effect on production and other services. If a part is Vital, it is given the 'V' classification , if it is Essential, then it is given the 'E' classification and if it is not so essential, the part is given the 'D' classification. For 'V' items, a large stock of inventory is generally maintained, while for 'D' items, minimum stock is enough. VED classification is specially used for classification of spare parts.

(d) ***Scarce, Difficult and Easy to obtain (SDE)*:** The SDE classification is based upon the availability of items and is very useful is the context of scarcity of supply. The SDE classification, is based on problem faced in procurement, is vital to the lead-time analysis and in deciding on purchasing strategies. In this classification 'S' refers to 'scarce' items, generally imported, and those, which are in short supply. 'D' refers to difficult items, which are available indigenously but are difficult to procure. 'E' refers to items which are easy to acquire and which are available in the local market.

(e) ***Fast moving, Slow moving and Non-moving (FSN)*:** The FSN classification is based on the pattern of issues from stores and is useful in controlling obsolescence. It is useful in identifying active items, which need to be reviewed regularly and surplus items, which have to be examined further. Non-moving items may be examined further and their disposal can be considered.

(f) ***Economic Order Quantity (EOQ)*:** EQO technique answers, the question of, how much to order and establishes the frequency with which, orders are placed. EOQ is the order size at which the total cost; comprising ordering cost plus carrying cost, is the least. EOQ is applicatble both to single items and to any group of stock items with similar holding and procurement costs.

(g) ***Maximum-Minimum System*:** This system is often used in connection with manual inventory control systems. The minimum quantity is established in the same way as any reorder point. The maximum is the minimum quantity plus the optimum lot size.

(h) ***Two Bin System*:** In the two bin system, stock of each item is separated into two bins. One bin contains stock; just enough to last from the date a new order is placed until it is received in inventory. The other bin contains a quantity of stock, enough to satisfy probable demand during the period of replenishment. To start with, the stock is issued from the first bin. When the first bin is empty, an order for replenishment is placed, and the stock is the second is utilized until the ordered material is received.

(i) ***Materials Requirement Planning (MRP)*:** MRP is most useful to firms with finished goods or end products which are made from a number of components and which are also subject to uneven or lumpy demand. The technique separates the various components and co-ordinates purchasing and delivery with production. This results in materials arriving exactly when needed for production and, at the same time, reduces the length of time when materials are held in stock. MRP plans and controls goods on order and generates data for determining, when and what specific materials will be needed to meet the previously planned production schedule.

(j) ***Just in Time (JIT)*:** The JIT concept originated from the Motomachi plant of Toyota in Japan. As a concept, JIT means that virtually no inventories are held at any stage of production and that the exact number of units is brought to each successive stage of production at the right time.

Illustration 11.1 The consumption of 12 items in a company in the previous year was as follows.

Item Code No.	Annual Consumption in Rs	Item Code No.	Annual Consumption in Rs
1	20,000	7	2,500
2	200	8	2,400
3	15,000	9	300
4	4,000	10	25
5	3,000	11	30
6	2,000	12	50

An ABC analysis can be done by ranking the items in descending order of their annual consumption value and determining the cumulative per cent as shown below.

Rank	Item Max %	Item Code No.	Annual Consumption in Rs	% of Total Value	Cumulative % Value	Category
1	8.3	1	20,000	40.00	40.00	A
2	16.6	3	15,000	30.00	30.00	
3	25.0	4	4,000	8.7	78.7	
4	33.3	5	3,000	6.0	84.7	B
5	41.6	7	2,500	5.0	89.7	
6	50.0	8	2,400	4.8	94.5	
7	58.3	6	2,000	4.0	98.5	
8	66.6	9	300	0.6	99.1	C
9	75.0	2	200	0.45	99.55	
10	83.3	12	50	0.30	99.85	
11	91.6	11	30	0.10	99.95	
12	100	10	25	0.05	100.00	
		Total	**49,505**	**100.00**		

Benefits of Inventory Control

The major benefits that accrue from inventory control are listed below.

(a) Stock control ensures adequate supply of materials, stores, spares, and so on, minimises stock outs and shortages, avoids costly interruption in operation.

(b) It keeps down investment in inventories, inventory carrying cost, and obsolescence losses to the minimum.

(c) It facilitates purchasing economically through the measurement of requirements on the basis of recorded experience.

(d) It facilitates cost accounting activities by providing a means for allocating materials costs to products, departments, or other operating accounts.

(e) Perpetual inventory values provide a consistent and reliable basis for preparing financial statements.

Tips for Stock Keeping

- It depends upon the type of your business and on how fast your stocks move, whether you check them once a month, once a week or even once a day. If you keep few stocks, you must check them more often. Stock checks take time and trouble, but they can save you a lot of money. If you run out of stocks and have to say "No" to your customers, they will go elsewhere else and may not come back to you.
- If you hold too many stocks for a long time, you have money tied up which you cannot use for other purposes you may want in your business. You pay interest to your bank which you would not do if you kept the right stocks.
- To check your stocks quickly and easily, they should be stored in such a way that they are easy to count and see.
- If stocks are well set out, a quick look will tell you how much you have. If you only sell a few goods—rice, flour, beans, and dry fruits, for example—you can see in a minute when your stocks are low and when you must buy more. When you have done this a long time, you will not need to write them down.
- If you are selling many different articles—in a cycle shop with spare parts and extras in a shoe with different styles and different sizes in each style—it is very difficult. Then you need written stock records. This means writing down each different item of stock, and when you are checking it, writing the numbers of items—pieces, boxes, cases or, in the case of goods like flour, weight and for cloth, length. When you have many different items and sizes, you must set them out tidily, with each item in a separate group.
- For goods such as shoes or readymade dresses, the same styles must be stored together, according to size for each style, beginning with the smallest going up to the largest. Each style must be duly marked and identified.
- Small articles such as screws, nuts, washers, nails, hooks, and so on must be put in small boxes, one for each size, marked with the name of the item, for example, nails, 3 mm × 80 mm, and put on shelves in groups of items and in order of size.
- It will require some hard work the first time, but you will be happy because you can check your stocks quickly and also serve your customers faster.
- Your stock record can be kept in a simple notebook. Your stock record can tell you, provided it is up to date.

Illustration 11.2 You find in your stock record that you sell 40 batteries one week after you have given your order. You should order when your stock is at 100. This gives you 40 in hand for a week's delay and 60 more in case they do not come on time or more customers than usual buy batteries in the following week.

You find from your stock record that you sell around 50 imported water taps each month, which you buy from exporters. It takes three months for the taps to be delivered from Japan. You must re-order your supplies to leave at least 150 taps in stock, that is, at least three months' supply and perhaps another two months' supply in case of shipping delays.

For wholesalers and manufacturers who have large quantities of many different items or goods, keeping a record of stocks is more difficult. They will need to keep a stock record book of the type shown above. However, where the stock cannot easily be seen or counted, a card called a bin card should be kept with each separate group of items, perhaps on the shelf, tied to a rack (for steel bars, wooden planks, and so on.) or beside the stack of bags.

You need not keep a bin card for small items such as nails, screws, washers, pins, and so on. Find the number at which to re-order and place them in a packet or bag at the back of the drawer or the box where you keep them. When you have to open the bag to serve a customer, you know that you have to reorder.

This is an example of a simple bin card. "Reorder at" indicates the level of stock at which that item of stock must be recorded. The card has a hole at the top, so you can tie it to a drawer handle or hang it on a nail, and so on.

Aswathappa, K. and K. Shridhara Bhat (2000). *Production and Operations Management*. HPH, New Delhi.

Every time an article or a quantity of goods is taken out or put into stock, this must be written on the card. Even if you employ a storekeeper, check your stocks yourself from time to time.

Tips for good stock keeping are given below.

- Keep stocks tidily in groups of the same goods and sizes so that they can be easily seen and counted.
- Get rid of old and slow-moving stocks that take up space, which you may need for goods which move better.
- Sell off slow-moving stocks cheaply or even throw them out if they are not selling.

- **Define materials management. Bring out its scope and importance.**
- **Explain the purchase cycle.**
- **State the various techniques of inventory control.**

PRODUCTIVITY

The more the output from one worker or one machine (or piece of equipment) per day per shift, the higher is the productivity. High productivity is never a question of higher workloads or faster machines alone. It is always elimination of waste of all types of labour (time and skill), machine, time, capital, materials management, and so on. Mathematically, productivity is defined as

$$\text{Productivity} = \text{Output per unit of input}$$

SNAPSHOT

- **Productivity = Output/Input**
- **Maintenance** is that function of manufacturing management that is concerned with the day-to-day need of keeping the physical plant in good operating condition.

Therefore, higher the output per unit of input, higher is the productivity. So to improve productivity we should ask ourselves: Could the output from the present machines or equipment be increased to meet the larger sales demand by

- better planning of work?
- working two shifts or three shifts?
- better organisation of the work?
- better maintenance?

A good business manager who knows how to organise work, can often get more work out of a slower machine than one who does not understand how to organise the work of machines and workers.

Illustration 11.3 A workshop had an old lathe which could turn out 10 pieces per hour. The operator took one minute to pick up each job from the previous workstation and one minute to remove the job from the machine and carry it to the next workstation. The owner wanted to increase his output, so he bought a bigger machine which could produce 40 pieces per hour and cost him eight times as much as the old machine. There was not much increase in productivity.

This happened because he forgot that, in addition to the machine time, the operator was spending two minutes carrying the job from the workstation to another, that is, a total of 20 additional minutes for 10 pieces. With the new machine, though there was considerable increase in the turning capacity (40 per hour in place of 10), carrying time was an additional 80 minutes.

Thus, the new machine gave just over twice the output with eight times the investment.

Old Machine		*New Machine*	
Machine time per piece	= 6 minutes	Machine time per piece	= 1 minute 30 secs.
Carrying time per piece	= 2 minutes	Carrying time per piece	= 2 minutes
Total time per piece	= 8 minutes	Total time per piece	= 8 minutes 30 secs.

Perhaps it would have been cheaper for the owner to cut down on the carrying time by installing a roller or by rearranging the layout rather than investing in the new machine. Perhaps he could have bought another old machine at one-eighth the price the new machine and used the money saved elsewhere in his business.

Improving Materials Productivity

When you are trying to cut the cost of manufacturing, it is very important to know which of the inputs makes up the biggest part of the total cost. You must deal with those inputs first. Try to make it smaller. In many industries, it is the raw material cost which is the largest part of the total cost.

For example:

Metalworking	40–75% of the total product cost
Shoemaking	50–80%
Wooden furniture	40–70%
Cloth industry	30–70%
Cakes	30–70%

As you can see from the list above, the raw materials cost—including the cost of any parts—is as much as or more than all the other costs together. So in these and many other industries, if you want to reduce your costs, the first area to start with is the material.

Good buying: This is even more important in manufacturing than in the retail trade. Price is not everything. Cheap materials may mean buying more materials which cannot be used because they are faulty. Perhaps they need to be thrown away. In such a case, the materials have ended up costing much more.

Cutting down on waste: In woodworking, metalworking, shoemaking, dressmaking and tailoring, as well as in several other trades and skill in cutting can make great savings as opposed to bad cutting.

Cutting down defective work: Usually defective work must be thrown away or sold off cheaply. When work has to be scrapped, you lose not only the cost of the materials but workers' wages, cost of machine time, and the money you would have made if the product had been sold. Good training of workers, good tools and working conditions, good wages and strong supervision can cut down defective work.

Improving Labour Productivity

Merely cutting wages cannot improve labour productivity. There must be a cutting down of time wasted. Cutting out the wasted time by both workers and machines. The cost of labour and of machines are calculated on the basis of the time spent by the workers on the machine in order to do a certain piece of work. The less the time spent on a particular job, the less it costs. It is also important to reduce idle time.

- By allowing workers to have bad workplaces which are untidy and difficult to work at;
- By not giving workers the right tools for the job or by giving them tools which are broken or worn out.

Cutting machine time

Machinery costs lots of money. When you have bought a machine, you must use it as effectively as possible. In many workshops, machines remain idle for more time than they are working. This could be because of the following reasons.

- The workers using the machines spend too much time fetching materials from the store and taking away finished work.
- The next job is not ready when the previous job is finished. Therefore, the worker and the machine have to wait for work.
- Frequent break down of machines.

In addition to the above, machines are often not working at their correct speeds, tools are not properly sharpened or the workers are not trained to use the machines well. Before beginning work on a machine, make sure that it is working as well as possible – and that the worker really knows how to use it well.

Illustration 11.4 Let us look at an example of how time can be lost in working on a machine during a working day of eight hours (480 minutes) + 30 minutes meal break (8.50 hours workday).

Look at these figures

Total working day (less meal break)	480 minutes
Man and machine are producing work	310 minutes
Machine stopped	170 minutes

Stopped time

Reset machine for new job (twice)	31 minutes
Take away finished work and fetch materials	51 minutes
Breakdown	32 minutes
Worker coming late, smoking, talking	56 minutes
	170 minutes

Note: The machine was stopped for more than one- third of the working day. Of this time, 31 minutes were needed to set up the machine for new jobs. The worker lost 56 minutes due to starting late, finishing early, talking and so on, and 83 minutes of the working time were lost from causes which good management could have eliminated.

Let us see what happens when the worker does not have to go and fetch raw materials, does not have to carry away finished work and when better machine maintenance stops breakdowns or when the worker is better supervised.

Total working day (less meal break)	480 minutes
Man and machine are producing work	394 minutes
Machine stopped	86 minutes

Stopped time

Reset machine for new job (three times)	47 minutes
Worker coming late, smoking, talking	39 minutes
	86 minutes

Note: By using an unskilled labourer to fetch new material to the machine and take away finished work, the machine worker can work on the machine and loses no time. Breakdowns have been stopped by good machine maintenance. The worker is better supervised but can still take a short rest (39 minutes); 84 minutes extra output has been gained. This could pay the unskilled labourer's wage and more, but check with your accountant. Take time to watch the work in your workshop. You may be surprised at the time and money you are losing.

Handling, material on and off machines

It has been discussed earlier that in some trades it takes much longer to bring the material to the machine and put it on the machine than it does to cut or work the material. It is true of woodworking, where big logs of wood are difficult to handle. It can be true of sheet-metal also because the sheets are large and heavy. It can also be true of dressmaking when the dress or shirt is nearly finished.

If you can make the handling time for each operation smaller, you can increase your output. Many businessmen spend a lot of money on high-speed machines and lose most of the increased output because they do not cut the handling time. If you are in a trade where heavy materials and work must be handled, think about ways in which you can make the handling time less. Get advice on this aspect of your production.

Workplace layout

The way in which tools, materials, and finished work are laid out at the place where the work is done is called workplace layout. The workplace, in many workshops, big and small, all over the world, is in a virtual mess. Finished work is mixed with the pieces waiting to be assembled. The tools are in the wrong places. The worker has to look for everything he wants. He may take twice as long to make one assembly as the workers at the workplace who has a chair to sit on. The latter will be less tired. Good workplace layout is very important where products are small and light and where they are produced from many parts and in large quantities. Work-study will help you make better layouts and save money.

Working conditions

In many small workshops and in some big ones, working conditions are poor. Much time is lost and work is often spoiled. Bad lighting results in slow and bad work. Benches of the wrong height and bad tools make it difficult to work well. Passages full of material and rubbish slow down movement and cause accidents. The absence of guards on machines, the lack of goggles where they are needed, or dangerous fumes make working dangerous. Workers are afraid. Apart from the suffering, accidents cost you money. They stop work. Workers are unhappy. Better working conditions often cost more, but they will result in a much better output.

There should be adequate heating in winter, good ventilation, decreased levels of noise and vibrations. These will increase the interest of workers, and they will be more productive. Make sure that your premises comply with the requirements of the Factories Act.

Equipment

New investment

As time goes on, machinery, equipment, motor vehicles, even buildings, become worn out or out of date. There comes a time when they must be replaced if outputs have to kept up. If you are doing well, your business will grow. You will need more machines, more vehicles, bigger buildings, and so on. Buying new capital equipment is a serious matter and if you are not careful you may waste a lot of money.

There are ways in which you can plan when machines are beginning to cost too much and must be replaced. A small manufacturer or operator must do this more simply. When a machine becomes difficult to operate, shows poor productivity and begins to break down often, you must ask yourself: "Should I buy a new machine?' If you are keeping good records of production, it is easy to see when the output of the machine is falling.

There may be reasons which will push you to buy now instead of later, such as the following.

- A new machine may be much more expensive next year.
- You cannot get spares for the old machine. In some small firms, the machines are so old that spares have not been sold for years.
- Sales are going up. You need the extra output.
- The workers who could make the old machine work have left. The new employees may not know the method of operation or the tricks needed to make it function.

Try to find out what is the minimum quantity that you can produce and sell if you invest in a new machine so that it is profitable to make the investment.

Choosing new machines

Not many owners of small businesses have the technical knowledge to choose among the many different machines which may be much more modern than the one they know. They are often persuaded by salesmen to buy machines and other equipment which are too big, or, in other ways, not the best for their needs. Salesmen may be more interested in making the biggest sale rather than in selling what is suitable for you. If you choose badly, you are wasting your money.

When you buy an important new machine, you are buying not only for the present but also for the future. Some of the questions you should ask yourself are listed below.

- Do I want a machine or a piece of equipment of the same type and with the same output as the one I have?
- Will I have the same or a bigger demand for my products in the next five years?
- Is there a newer process, cheaper and perhaps easier to operate (with less skilled workers), which is now used instead of my machine and process? Have I looked at it?
- If I bought the new machine or process, could my present staff of workers operate it? If not, where can they be trained? In our own town? At the manufacturer's works?
- Will the new process work with my present raw materials?
- Is there any company in the area, or nearby which has the new machine or process I am thinking of buying? Where can I go and look at it working and learn more about it?

Once you have got the quotations for the new machine or equipment, you should do the following.

- Get written guarantees of output and quality of production. Even then, check with someone who has used the machine.
- Check on the delivery date. Do not trust promises that look too good.
- Get enough spare parts and make sure that they are ones you will need most. Find out if you can get service and spares in and around your area.
- Get detailed instructions on installation, operation, and maintenance. Ask for the operating manuals.
- Try to get a manual in Hindi, English, or in the languages that you know well.
- Make sure that the terms you have agreed to for installation, for getting the machinery or equipment into operation are the best you could get.
- Have an accountant or lawyer check exactly what you have agreed to in regard to the matter of payment.

Maintenance

Maintenance is that function of manufacturing management that is concerned with the day-to-day need of keeping the physical plant in good operating condition. It is an essential activity in every manufacturing establishment, because it is necessary to ensure the availability of the machines, buildings, and services needed by other parts of the organisation for the performance of their functions at an optimum return on the investment, whether this investment is in machinery, materials, or employee.

Machine maintenance means looking after machines and equipment, including vehicles, by oiling, greasing, checking calibration, replacing worn-out parts before they break, checking the electrical parts and the wiring. If a machine has to work well, maintenance must be done regularly, oiling and greasing must be carried out about once a week, and the electric motors must be checked every three months. The more a machine costs, the more important becomes its maintenance. If you must stop a machine for a long time, plan to stop it when you think it is most suitable. It is better to stop a machine when you want to rather than have it break down and stop when it is doing important work.

Maintenance covers two broad categories of functions as outlined below.

(a) Primary functions

- Maintenance of existing plant and equipment
- Maintenance of existing plant buildings and grounds
- Equipment inspection and lubrication
- Utilities generation and distribution
- Alterations to existing equipment and buildings
- New installations of equipment and buildings

(b) Secondary functions

- Keeping stock of spare parts
- Plant protection including fire protection
- Waste disposal
- Salvage

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- Insurance administration (against fire, theft, and so on)
- Janitorial services
- Property accounting
- Pollution and noise abatement or control

To avoid unnecessary delays due to unexpected breakdowns, it may be worthwhile to draw up a schedule for preventive maintenance where your machine may be stopped in a staggered and preplanned manner. Maybe you should work on each machine for four hours every week or for as long as is necessary. Sometimes maintenance can be planned for a weekly off day or during power cuts or even after production hours on overtime. The key point is that production should not stop when you want it to run.

The various types of maintenance are given below.

(a) Breakdown maintenance
(b) Preventive maintenance
(c) Predictive maintenance
(d) Routine maintenance
(e) Planned maintenance
(f) Total productive maintenance (TPM)

DISCUSSION FORUM

- Discuss in small groups various productivity improvement techniques.
- Explain different types of maintenance systems.

Box 11.3 Objectives of Maintenance Management

- Minimising the loss of productive time because of equipment failure.
- Minimising repair time and repair cost.
- Minimising the loss due to production stoppages.
- Efficient use of maintenance personnel and equipment.
- Prolonging the life of capital assets by minimising the rate of wear and tear.
- To keep all assets of the enterprise in good working condition.
- To maximise efficiency and economy in production through optimum use of facilities.
- To minimise accidents through regular inspection and repair of safety devices.
- To minimise the total maintenance cost.
- To improve quality and productivity.

BREAK-EVEN ANALYSIS

SNAPSHOT

- The total cost incurred by the unit can be classified as
  - Fixed cost
  - Variable cost
- ***Break-even*** is the number of units that must be sold in order to produce a profit of zero (but will recover all associated cost).

  BEP = Fixed cost/(unit price–variable unit cost)

A rudimentary idea of cost analysis is required to calculate the profit from business. Besides, this calculation has to be reflected in the project report.

Some expenditure is incurred in the production of goods, which in turn, bring revenue after sale in the market. If the sale proceeds are more than the cost of production, the unit earns profit. Otherwise it suffers a loss. In order to maximise profit, it is necessary to maximise the surplus of sales revenue over the cost of production.

Types of Cost

The total cost incurred by a unit can be classified as follows.

(a) **Production cost:** This includes the cost of raw materials and components, power used for running the machines and lighting and heating and salaries and wages of staff engaged in production.

(b) **Marketing cost:** It includes the cost of advertising and promotion of business as well as the salaries of marketing staff.

(c) **Administrative cost:** This includes the cost of provision of building and equipment, telephones and other information systems, and wages and salaries of people responsible for the smooth running of the business.

(d) **R & D:** Any cost involved in the development of new products.

(e) **Distribution and storage:** This is the cost involved in storage of raw material and finished goods as well as of transportation. Some costs are jointly incurred, making it difficult to divide costs into various activities. In the interest of controlling costs it is necessary to identify them wherever they occur and relate them to a particular area of activity.

Fixed and variable costs

One practical way of deciding cost is to divide it into its fixed and variable components. They vary with the increase or decrease of business activity and have direct implications on profitability.

Fixed costs: This includes the salaries of administrative staff, rent for buildings, interest on capital investment, depreciation of machinery and equipment, furniture, and so on. It does not change with the volume of production. This cost is to be incurred if the production is zero, or maximum. Depreciation is the cost equivalent to the reduction in cost of machines and equipment on account of wear and tear due to normal use over the years. There are various methods of calculating the rate of depreciation. The simplest way to arrive at an estimate is to divide the difference of cost price and scrap value by the estimated life of the machine.

Illustration 11.5

$$\text{Cost price of machine} = \text{Rs } 10{,}000$$
$$\text{Estimated life} = 10 \text{ years}$$
$$\text{Estimated scrap value} = \text{Rs } 1{,}000$$
$$\text{Annual depreciation charge} = \frac{\text{Rs } 10{,}000 - \text{Rs } 1{,}000}{10}$$
$$= \text{Rs } 900$$

Expressed as a percentage of cost price it becomes

$$= \frac{900 \times 100}{10{,}000} = 9\%$$

That means a machine costing Rs 10,000 and having an estimated life of ten years and scrap value of Rs 1,000 at the end of 10 years is wearing away at the rate of nine per cent of its cost price every year. Generally, a flat rate of 10–15 per cent is taken as the standard value of depreciation. The distinction between fixed capital and fixed cost must be clearly understood. Otherwise, there may be confusion while preparing the project report.

Fixed capital is the net asset value of the unit. It comprises the following items.

(i) Actual cost of land and building including its development cost, cost of boundary walls, and so on.
(ii) Total cost of plant and machinery.
(iii) Total cost of furniture and other equipment.

Fixed cost, on the other hand, is the cost per month incurred by the firm irrespective of its being operational or not. This includes

(i) the interest to be paid on fixed capital;
(ii) cost of depreciation of machinery, equipment, and furniture;
(iii) salaries of the administrative and other essential staff not directly connected with production – otherwise called overhead expenditure; and
(iv) a portion of expenses on utilities. Roughly 50 per cent of the total expenditure on utilities is attributed to this head.

Variable costs

Variable costs vary with the volume of production. If the production is zero, variable cost is nil. The cost of raw materials, running and maintenance costs of machines, electricity and water charges, and so on are part of variable costs.

Break-even Point

Break-even point is the point of business operation when the business neither earns any profit nor incurs any loss. If the sales volume exceeds this point, profit starts picking up. It is important to estimate for what volume of sales the business will be earning a profit.

This can be calculated by the following simple formula:

$$\text{Break-even point} = \frac{\text{Fixed cost}}{\text{Selling price per unit} - \text{Variable cost per unit}}$$

Illustration 11.6 Assuming a fixed cost of Rs 10,000 and a selling price of Rs 5 per piece and a variable cost per unit of Rs 3, the break-even sales volume becomes

$$= \frac{\text{Rs } 10{,}000}{\text{Rs } 5 - \text{Rs } 3} = 5{,}000 \text{ units}$$

That means 5,000 units must be sold before the business shows any profit.

Putting the expected profit in the equation,

$$\text{Break-even profit point} = \frac{\text{Fixed cost} + \text{Desired profit}}{\text{Unit price} - \text{Variable unit cost}}$$

Taking a desired profit of Rs 10,000

$$\text{BEPP} = \frac{\text{Rs } 10{,}000 + \text{Rs } 10{,}000}{\text{Rs } 5 - \text{Rs } 3} = 10{,}000 \text{ units}$$

Maybe, it is not possible top produce or sell that big volume. If so, something has to be changed—cost reduction with higher productivity or a higher selling price.

It is estimated that only 7,000 units can be produced and sold. In that case, in order to achieve a profit of Rs 10,000, the new selling price will be

$$7{,}000 = \frac{\text{Rs } 10{,}000 + \text{Rs } 10{,}000}{\text{Rs } x - \text{Rs } 3}$$

Solving the equation for x we get the new selling price as Rs 5.86.

Ways to lower break-even

There are three ways to lower your break-even volume; only two of them involve cost controls (which should always be your goal on an ongoing basis).

1. Lower direct costs, which will raise the gross margin. Be more diligent about purchasing material, controlling inventory, or increasing the productivity of your labour by more cost-effective scheduling or adding more efficient technology.
2. Exercise cost controls on your fixed expenses, and lower the necessary total rupees. Be careful when cutting expenses that you do so with an overall plan in mind. You can cut too deeply as well as too little and cause distress among workers, or you may pull back marketing efforts at the wrong time, which will give out the wrong signals.
3. Raise prices! Most entrepreneurs are reluctant to raise prices because they think that the overall business will fall off. More often than not that does not happen unless you are in a very price-sensitive market, and if you are, you really have already become volume driven.

Visit http://connection.cwru.edu to access a break-even calculator.

Break-even analysis depends on the following variables.

1. The fixed production costs for a product
2. The variable production costs for a product
3. The product's unit price
4. The product's expected unit sales [sometimes called projected sales]

On the surface, break-even analysis is a tool to calculate at what volume of sales the variable and fixed costs of manufacturing your product will be recovered. Another way of looking at it is that break-even point is the point at which your product stops costing you money to produce and sell, and starts to generate a profit for your company. You can also use break-even analysis to solve managerial problems such as

- setting price levels;
- targeting optimal variable/ fixed cost combinations; and
- determining the financial attractiveness of different strategic options for your company.

DISCUSSION FORUM

- **What is break-even analysis?**
- **Explain the significance of break-even analysis.**

TOTAL QUALITY MANAGEMENT

"Quality" Defined

The dictionary has many definitions of quality. A short definition that has achieved acceptance is: ***Quality is customer satisfaction.***

Quality is a relative term and it is generally used with reference to the end use of the product. For example, the gears used in a sugarcane juice extracting machine may not possess as good surface finish, tolerance, and accuracy as compared with the gears used in the headstock of a lathe. Quality should be aimed at the needs of the consumer, present and future (Edwards Deming).

According to ISO 8402: Quality vocabulary, quality is "The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs." Broadly, quality is:

1. ***Fitness for use (Juran):*** A component is said to possess good quality if it works well in the equipment for which it is meant. Quality is thus defined as fitness for purpose.
2. ***Grade:*** Quality is the distinguishing feature or grade of the product in appearance, performance, life, reliability, taste, odour, maintainability, and so on. These are generally called quality charac-teristics.

3. ***Degree of preference:*** Quality is the degree to which a specified product is preferred over competing products of equivalent grade, based on a comparative test by customers, normally called customer's preference.
4. ***Degree of excellence:*** Quality is a measure of degree of general excellence of the product.
5. ***Conformance to requirements (Philip Crosby):*** The conformance to requirements is concerned with how well the manufactured product conforms to the design/specifications.

Managing for Quality

Quality management is the process of identifying and administering the activities needed to achieve the quality objectives of an organisation. The universal process of managing quality is illustrated in Table 11.1.

TABLE 11.1 Universal Process for Managing Quality

Quality Planning	*Quality Control*	*Quality Improvement*
◆ Establish quality goals	◆ Choose control subjects	◆ Prove the need
◆ Identify customers	◆ Choose units to measure	◆ Identify projects
◆ Discover customer needs	◆ Set goals	◆ Organise project teams
◆ Develop product features	◆ Create a sensor	◆ Diagnose the causes
◆ Develop process features	◆ Measure actual performance	◆ Provide remedies, prove that the remedies are effective
◆ Establish process controls	◆ Interpret the difference	◆ Deal with the resistance
◆ Transfer to operations	◆ Take action on the difference	◆ Change and control hold the gains

Total Quality Management

It is defined as a management approach that tries to achieve and sustain long-term organisational success by encouraging employee feedback and participation, satisfying customer needs and expectations, respecting societal values and beliefs, and obeying governmental statutes and regulations. Product, process, system, people, and leadership form the five pillars of TQM. This is shown in Figure 11.3.

TQM provides the overall concept that fosters continuous improvement in an organisation. The TQM philosophy stresses a systematic, integrated, consistent, organisation-wide perspective involving everyone and everything. It focuses primarily on total satisfaction for both the internal and external customers, within a management environment that seeks continuous improvement of all systems and processes.

Quality Improvement Tools

Quality improvement tools are divided into three parts. The first part deals with the seven statistical tools, the second part deals with the seven new tools, and the third part deals with the other quality improvement tools. These quality improvement tools are listed below.

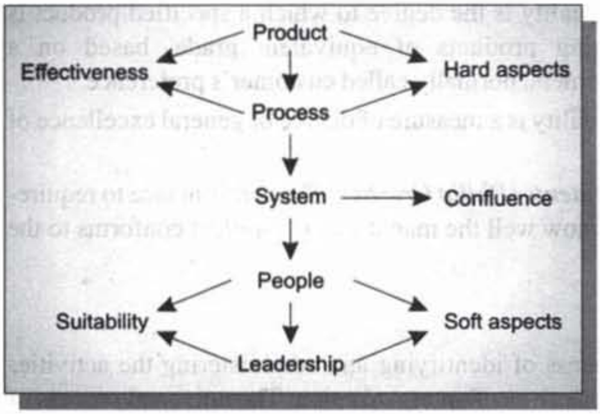

Figure 11.3 ■ Five pillars of TQM

Part 1 The Seven Statistical Tools

1. Checksheet
2. Histogram
3. Pareto diagram
4. Cause and effect diagram
5. Scatter diagram
6. Control chart
7. Graphs

Part 2 The New Seven Tools

1. Relations diagram
2. Tree diagram
3. Matrix diagram
4. Affinity diagram
5. Arrow diagram
6. Process decision programme chart
7. Matrix data analysis

Part 3 Other Quality Improvement Tools

1. Vision and mission statements
2. Acceptance sampling
3. Process capability studies
4. Zero defect programme (Poka-Yoke)
5. Brainstorming
6. Value analysis and value engineering
7. Benchmarking

Quality Systems

The International Organisation for Standardisation (ISO) was founded in 1946 in Geneva, Switzerland, where it is still based. Its mandate is to promote the development of international standards to facilitate the exchange of goods and services worldwide. Recognising the importance of a quality system, ISO has developed a series of standards popular as ISO 9000. These international standards were jointly developed by all ISO member countries and are being adopted throughout the world.

The ISO 9000 is a series of standards on quality management system, which can be adopted by all types of organisations belonging to the government, public, private or joint sectors, producing and supplying all kinds of goods, services, and software. These standards are generic, not specific to any particular product and can be used for managing the quality of outputs of manufacturing and service industries.

These standards were revised for the first time in 1994. Based on the actual experience of several thousand companies, these standards were further revised with an

TABLE 11.2 Quality System Standards

Standard	*Title*	*Scope*
ISO 9000–2000	Quality Management Systems—Fundamentals and Vocabulary	Provides fundamentals of quality management system and specifies quality management terms and definitions
ISO 9001–2000	Quality Management Systems—Requirements	Specifies requirements for a quality management system where an organisation needs to demonstrate its capability to meet customer requirements for product and/or services and assessment of that capability by internal and external parties
ISO 9004–2000	Quality Management Systems—Guidance for Performance Improvement	Provides guidance on quality management systems as a means for continual improvement of processes that contribute to the satisfaction of the organisation's customers and other interested parties

improved version in 2000. The latest revision contains three main standards given in Table 11.2.

Quality Management Principles

Quality management principles are a set of comprehensive and fundamental rules or beliefs for leading and operating an organisation, aimed at continually improving performance over the long-term by focusing on customers while addressing the needs of all stakeholders. Quality management principles provide understanding and guidance on the application of quality management in an organisation. As per ISO, the following eight quality management principles can help any organisation in creating a quality work culture and successfully implementing quality management.

1. **Customer focused organisation:** Organisations depend on their customers and should therefore, understand their current and future needs, meet their requirements, and strive to exceed their expectations. Customer-focused organisations manufacture products and services that are needed by the customer and provide customer satisfaction. This can be achieved by the following actions.
   - Identify customer needs.
   - Design a product which responds to customer needs.
   - Produce and deliver the product as per the design.
   - Enhance after sales service and handle complaints quickly.
   - Measure customer satisfaction.
   - Improve quality to delight the customer.
2. **Leadership:** The senior leaders of an organisation need to set directions and create a customer orientation, clear and visible quality values, and high expectations. Values, directions, and expectations need to address all stakeholders.

The leaders need to ensure the creation of strategies, systems, and methods for achieving excellence. Strategies and values should help guide all activities and decisions of the organisation. The senior leaders must commit to the development of the entire workforce and should encourage participation, learning, innovation, and creativity by all employees. Through their personal roles in planning, communications, review of organisational performance, and employee recognition, the senior leaders serve as role models, reinforcing the values and expectations, and building leadership and initiative throughout the organisation.

3. **Involvement of people:** People involvement is one approach to improving quality and productivity. Involving people at all levels enables their abilities to be used for the organisation's benefit. This can be done by providing a good corporate work culture, providing an interesting work system and work environment, and building the capability of the people to perform assigned tasks in the organisation.
4. **Process approach:** A desired result is achieved more efficiently when related resources and activities are managed as a process.
5. **Systems approach to management:** Identifying, understanding and managing a system of interrelated processes for a given objective contributes to the effectiveness and efficiency of the organisation.
6. **Continuous improvement:** A permanent objective of the organisation is that it should continuously improve performance by addressing the needs of all interested parties.
7. **Factual approach to decision making:** Effective decisions are based on the logical or intuitive analysis of data and information.
8. **Mutually beneficial supplier relationship:** The ability of the organisation and its suppliers to create value is enhanced by mutually beneficial relationships.

The main purposes of quality management system can be summarised as below.

- Customer satisfaction/customer delight by assuring the required minimum level of consistent quality
- Satisfying "internal customers"
- Assuring management of doing this at minimum possible total cost of quality
- Maximising output to input ratios of processes
- Implementing "prevention is better than cure" strategy
- Improving quality of communication all around
- Developing competent subcontractors as partners
- Making continual improvement an ongoing feature in company's culture

Requirements of Quality Management System

(1) General

The system must demonstrate the capability to meet customer's requirements for products/services and also should provide for the assessment of that capability by internal and external parties. These are not a substitute but are complementary requirements to the specified technical requirements for products and services.

It is not the purpose of this standard to imply uniformity of quality management systems in all organisations, but to find out the design and implementation of an organisation's quality management processes and practices employed and the level of competence of the people involved in implementation. It does not intend to be an obligation on organisations to change the structure of their existing quality management system and/or its documentation to exactly match with the structure of ISO 9001 standard. The documentation of the organisation should be defined in a manner that is most appropriate to its unique activities.

(2) Process Model

A "process" is any activity or operation, which receives inputs and converts them to outputs. Organisations need to define and manage numerous interlinked processes. The systematic identification and management of the various processes employed in an organisation, and the interaction among such processes may be referred to as the "process approach" to management. The standard encourages the use of process approach for managing the organisation and its processes and as a means of identifying and managing opportunities for improvement.

Figure 11.4 gives a conceptual presentation of a generic quality management system. It is broadly based on the simple but famous Deeming cycle of "plan-do-check-act". Deeming propounded the use of this way of working all aspects of business. Any activity should be **planned** before doing it.

In many organisations, planning is not carried out with as much seriousness as it should be. In this situation there is no guideline against which to judge performance and hence no way of improving performance until the customer either shouts or just goes away. Once the plan has been agreed upon, the entire team should stick to **doing** things as per the plan until it is revised for some valid reason. Sometimes the plan may have to be revised very often as per the requirements of the customer. This is not an excuse for not having a plan at all. While the activities are being performed and at the end of a process, the results have to be **checked** or measured for their conformance with the requirements. The data is recorded and analysed at appropriate intervals using appropriate statistical techniques. Causes analysis is an important part of analysis. Based on the findings, **improvement actions**—either corrective or preventive—are decided upon and carried out again in a planned manner. Such actions should result in amending the working procedures in the company so that the improvements get into the system. Thus, it ensures a continually learning organisation.

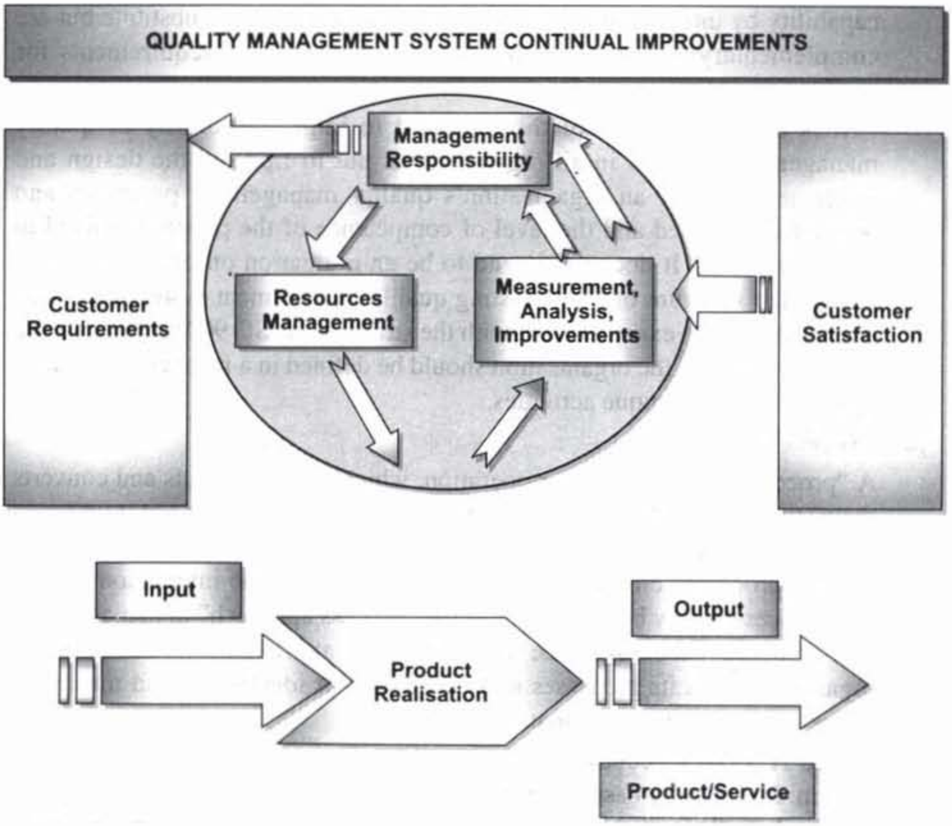

Figure 11.4 ■ Process model

(3) Compatibility with Other Management Systems

This standard shares common principles with ISO 14001, environmental management systems specification with guidance for use. It is suggested that common subjects in the two series of standards may be implemented in a shared manner, without unnecessary duplications or the imposition of conflicting requirements.

This standard does not address or include requirements for aspects of other management systems, such as environment management, occupational health and safety management or financial management. However, this standard does not prevent an organisation from developing integration of like management system subject/areas. This means that companies may simplify the documentation by preparing an integrated management system covering requirements of different compatible management systems. Quality system requirements of this standard need not be established independently of the existing management systems requirements.

ISO 9001:2000

ISO 9001:2000 **"Quality Management Systems- Requirements"**

The title no longer includes the term "Quality assurance". This is probably because the term somehow had connotations with the manufacturing system only. The new standard tries to be more generally applicable and to be understood more easily.

The requirements not only address quality assurance of the product or service conformity, the emphasis has been shifted to the need for an organisation to demonstrate its capability to achieve customer satisfaction.

Quality Management Systems—Requirements

Contents

1. Scope
2. Normative Reference
3. Terms and Definitions
4. Quality Management Systems
   - 4.1 General Requirements
   - 4.2 Documentation Requirements
5. Management Responsibility
   - 5.1 Management Commitment
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   - 5.3 Quality Policy
   - 5.4 Planning (Objectives and QMS planning)
   - 5.5 Responsibility, Authority and Communication (R&A , MR, Int. Com.)
   - 5.6 Management Review (Gen., Input, Output)
6. Resource Management
   - 6.1 Provision of Resources
   - 6.2 Human Resources (General, Competence, Awareness, and Training)
   - 6.3 Infrastructure
   - 6.4 Work Environment
7. Product Realisation
   - 7.1 Planning of Product Realisation
   - 7.2 Customer Related Processes
     (Requirements—Determination and Review, Communication)
   - 7.3 Design and Development
   - 7.4 Purchasing
   - 7.5 Production and Service Provision
     (Control of Production and Service Provision, Validation of Processes, Identification and Traceability, Customer Property, Preservation of Product)
   - 7.6 Control of Monitoring and Measuring Devices.

8. Measurement, Analysis, and Improvement
    8.1 General
    8.2 Monitoring and Measurement
    (Customer Satisfaction, Internal Audit, Processes, Product)
    8.3 Control of Non-conforming Product
    8.4 Analysis of Data
    8.5 Improvement
    (Continual Improvement, Corrective Action, Preventive Action)

Steps to Certification Under ISO 9001:2000

Steps in preparation and implementation of ISO 9001 for certification are summarised in Table 11.3. These are not a rigid set of steps but only a general guideline for those who wish to implement the system in their organisations. Some explanatory notes are given after the table on some of the steps involved. Persons shown as generally responsible are indicative. Wherever the CEO is shown as responsible, it means the top management must be involved—irrespective of designation.

Refer for quality improvement tools Charantimath, Poornima (2003). *Total Quality Management*. New Delhi: Pearson Education.

Training of the MR for his role in this entire process is of vital importance for timely completion of the process till certification. If the MR undergoes training to become the lead assessor, it is an additional asset in the process; however, it is not mandatory. He should be trained to be an internal quality auditor and should be fully aware of the standard requirements. Though the pre-assessment audit is said to be optional, and though it means a little additional cost to the organisation, it is a highly recommended practice for the following reasons.

(a) It is like a dress rehearsal for the entire company and especially for those who are going to face the final audit.
(b) The auditees get a first-hand idea about the interpretation of the certifying agency about the standard requirements.
(c) The report based on the third party pre-audit becomes an agenda of priority items to be completed before the certification audit.
(d) Chances of success in the final audit improve distinctly.

DISCUSSION FORUM

- Define TQM. List the various quality improvement tools.
- Name the requirements of ISO 9000:2000.
- What is the aim of EMS standard? How is the aim achieved?

TABLE 11.3 Steps in Preparation and Implementation of ISO 9001

S. No.	*Activities*	*Generally Responsible*
1	Management commitment	CEO/Board of Directors
2	Formation of core group (In large, multi-division, multi-location companies)	CEO
3	Quality policy	CEO
4	Appointment of management representative (MR)	CEO
5	Train MR	Training agency
6	Awareness programme for all employees	MR/Dept. Head/Consultant
7	Set quality objectives for the company and for all the functional areas	MR, CEO and all departmental heads
8	Prepare a list of documentation and procedure for writing procedures	MR
9	Form implementation team (generally of all department heads) and delegate writing documentation	CEO/MR
10	Mapping the existing processes/writing existing procedure/work methods/instructions/checklists	Dept. Heads/Key personnel
11	Comparison with applicable ISO 9001 standard and identify gaps	Dept. Head/MR/Consultant
12	Writing additional procedures / work instructions to fill gaps	Dept. heads
13	Apex quality manual	MR/Guidance from consultant
14	Compile linkages among procedures	MR
15	Regular review of progress	MR with core group
16	Check adequacy for certification with respect to the standard	MR, Dept. Heads (if required—consultant)
17	Identify certification agency	MR (Consultant—if required)
18	Request for certification, submit quality manual for review/fees	MR
19	Training programme for internal quality audits (IQA)	MR, Consultant (By qualified lead assessor)
20	1st internal audit including adequacy audit	MR and IQ auditors, consultant, if required
21	1st management review meeting (MRM)	CEO + MR + Dept. heads + Internal quality auditors
22	Take planned corrective and preventive actions	All departmental heads + MR
23	2nd IQA	MR and IQ auditors
24	2nd MRM	CEO + MR + Dept. heads + Internal quality auditors
25	Follow up or compliance audit to check completion of corrective actions effectively	MR, Consultant, Internal quality auditors
26	Preliminary assessment (Generally optional, but a recommended practice)	Accredited certification agency
27	Final assessment for certification	Accredited certification agency

ENVIRONMENTAL MANAGEMENT SYSTEM

The International Organisation for Standards completed the quality management system (ISO 9000) in 1987. Its worldwide success along with increased emphasis on environmental issues were instrumental in ISO's decision to develop environmental management standards. In 1991, ISO formed the Strategic Advisory Group on the Environment (SAGE), which led to the formation of Technical Committee (TC) 207 in 1992. The mission of TC 207 is to develop standards for an Environmental Management System (EMS). TC 207 has established six sub-committees: Environmental Management Systems, Environmental Auditing, Environmental Labelling, Environmental Performance Evaluation, Life Cycle Assessment, and Terms and Definitions.

ISO 14000

The ISO 14000 document is titled *Environmental Management System—General Guidelines on Principles, Systems and Supporting Techniques.* It outlines system elements, with advice on how to initiate, implement, improve, and sustain the system. By following its guidelines and the core elements of the environmental management system specification, ISO 14001, your organisation will have a framework to balance and integrate environmental and economic interests. Doing so will improve your competitive advantage. The ISO 14000 series is given in Table 11.4.

ISO 14000 stipulates a set of ten management principles for organisations considering an environmental management system. These management principles are as follows.

1. Recognise that environmental management is one of the highest priorities of any organisation.
2. Establish and maintain communications with both internal and external interested parties.
3. Determine legislative requirements and those environmental aspects associated with your activities, products, and services.
4. Develop commitment by everyone in the organisation to environmental protection and clearly assign responsibilities and accountability.
5. Promote environmental planning throughout the life cycle of the product and the process.
6. Establish a management discipline for achieving targeted performance.
7. Provide the right resources and sufficient training to achieve performance targets.
8. Evaluate performance against policy, environmental objectives and targets, and make improvements wherever possible.
9. Establish a process to review, monitor, and audit the environmental management system to identify opportunities for improvement in performance.
10. Encourage vendors to also establish environmental management systems.

TABLE 11.4 ISO 14000 Series

ISO 14000	Environmental Management Systems. General guidelines on principles, systems, and supporting techniques.
ISO 14001	Environmental Management Systems. Specification with guidance for use.
ISO 14004	Environmental Management Systems. General guidelines on principles, systems, and supporting techniques.
ISO 14010	Guidelines for environmental auditing. General principles of environmental auditing.
ISO 14011/1	Guidelines for environmental auditing. Audit procedures—Part 1: Auditing of environmental management systems.
ISO 14012	Guidelines for environmental auditing. Qualification criteria for environmental auditors.
ISO 14013	Guidelines for environmental auditing. Management of environmental management system audit programmes.
ISO 14014	Guidelines for initial environmental reviews.
ISO 14015	Guidelines for environmental site assessments.
ISO 14020	Environmental labelling. Principles of all environmental labelling.
ISO 14021	Environmental labelling. Self-declaration, environmental claims—terms and definitions.
ISO 14022	Environmental labelling. Symbols.
ISO 14023	Environmental labelling. Testing and verification methodologies.
ISO 14024	Environmental labelling. Practitioner programmes, guiding principles, practices and certification procedures of multiple criteria.
ISO 14030	Environmental performance evaluation.
ISO 14031	Evaluation of the environmental performance of the management system and its relationship to the environment.
ISO 14040	Environmental management—life cycle assessment—principle and guidelines.
ISO 14041	Environmental management—life cycle assessment—Goal definition/scope and inventory analysis.
ISO 14042	Environmental management—life cycle assessment. Impact assessment.
ISO 14043	Environmental management—life cycle assessment. Improvement assessment (or evaluation and interpretation).
ISO 14050	Terms and definitions.
ISO 14060	Guide for the inclusion of environmental aspects in product standards.

Benefits of Environmental Management System

What does ISO 14000 say regarding the benefits to an organisation by implementing an effective environmental management system? Corporations and organisations can do the following.

1. Protect human health and the environment from the potential impacts of its activities, product, and services
2. Assist in maintaining and improving the quality of the environment
3. Meet customers' environmental expectations

4. Maintain good public and community relations
5. Satisfy investor criteria and improve access to capital
6. Provide insurance at a reasonable cost
7. Gain an enhanced image and market share
8. Satisfy vendor certification criteria
9. Improve cost control
10. Limit liabilities
11. Provide resource conservation
12. Provide effective technology development and transfer
13. Provide confidence to interested parties (and shareholders) that
    - policies, objectives and targets are met;
    - emphasis is on prevention first;
    - reasonable care and regulatory compliance regularly occur; and
    - System design includes continual improvement.

ISO 14001

This standard provides organisations with the elements for an environmental management system, which can be integrated into other management systems to help achieve environmental and economic goals. It describes the requirements for registration and/or self-declaration of the organisation's EMS. Demonstration of successful implementation of the system can be used to assure other parties that an appropriate EMS is in place. It was written to be applicable to all types and sizes of organisations and to accommodate diverse geographical, cultural, and social conditions. As previously mentioned, the requirements are based on the process and not on the product. It does, however, require commitment to the organisation's EMS policy, applicable regulations, and continual improvement.

There are four sections to the standard—scope, normative reference, definition and EMS requirements—and an informative annex. The standard is divided into six parts and has a total of 18 requirements.

The guidance of ISO 14000 on the development and implementation of environmental management systems and principles, including their coordination with other management systems, is applicable to any organisation interested in having or improving an environmental management system. The guidelines are for voluntary use as an internal management tool. They build on the core elements of ISO 14001 and also include additional elements important to a comprehensive environmental management system.

Environmental Management Systems—Requirements

Contents

1. Scope
2. Normative References
3. Definitions

4. EMS Requirements
   - 4.1 General Requirements
   - 4.2 Environmental Policy
   - 4.3 Planning
     - 4.3.1 Environmental Aspects
     - 4.3.2 Legal and Other Requirements
     - 4.3.3 Objectives and Targets
     - 4.3.4 Environmental Management Programme(s)
   - 4.4 Implementation and Operation
     - 4.4.1 Structure and Responsibility
     - 4.4.2 Training, Awareness, and Competency
     - 4.4.3 Communication
     - 4.4.4 EMS Documentation
     - 4.4.5 Document Control
     - 4.4.6 Operational Control
     - 4.4.7 Emergency Preparedness and Response
   - 4.5 Checking and Corrective Action
     - 4.5.1 Monitoring and Measuring
     - 4.5.2 Non-conformance and Corrective and Preventive Action
     - 4.5.3 Records
     - 4.5.4 EMS Audit
   - 4.6 Management Review

SUMMARY

- **Production system** is a system whose function is to convert a set of inputs into a set of desired outputs. **Production management** refers to the application of management principles to the production function in an enterprise.
- **Materials management** refers to the movement of production materials from the stage of their acquisition to the stage of their consumption. The two main functions of material management are purchase management and inventory management.
- **High productivity** is never a question of higher workloads or faster machines alone. It is always an elimination of wastage of all types of labour (time and skill), machine, time, capital, materials, management, and so on.
- **Break-even** is the number of units that must be sold in order to produce zero profit (but will recover all associated cost).
- TQM is defined as a management approach that tries to achieve and sustain long-term organisational success by encouraging employee feedback and participation, satisfying customer needs and expectations, respecting societal values and beliefs, and obeying governmental statutes and regulations. Product, process, system, people, and leadership form the five pillars of TQM.

KEY WORDS

- Production system
- Production management
- Production planning and control
- Plant layout
- Maintenance
- Materials management
- Purchase cycle
- Purchase management, Inventory management
- Input
- Output
- Conversion process
- Always Better Control (ABC)
- High, Medium and Low (HML)
- Vital Essential and Desirable (VED)
- Scarce
- Difficult and Easy to Obtain (SDE)
- Fast moving
- Slow moving and Non moving (FSN)
- Economic order quantity (EOQ)
- Max-minimum system
- Two-bin system
- Materials requirement planning (MRP)
- Just-in-time (JIT)
- Productivity
- Work study
- Method study
- Work measurement
- Break-down maintenance
- Preventive maintenance
- Predictive maintenance
- Routine maintenance
- Planned maintenance
- Total productive maintenance (TPM)
- Break-even analysis
- Fixed cost
- Variable cost
- Unit price
- Unit variable cost
- Total quality management (TQM)
- Quality
- Quality planning
- Quality control, Quality improvement
- Effectiveness
- Hard aspects
- Product
- Process
- System
- Confluence
- People
- Leadership
- Suitability
- Soft aspects
- Seven statistical tools
- New seven tools
- Vision and mission statements
- Acceptance sampling
- Process capability studies
- Zero-defect programme (Poka-Yoke)
- Brainstorming
- Value analysis and value engineering
- Benchmarking
- Process model
- Quality management system (QMS)
- Environmental management system (EMS)
- ISO 9000
- ISO 14000

EXERCISES

Problem 11.1

The production manager of a unit wants to know from you what that quantity of automatic machines he can use against semi-automatic machines. Calculate the break-even point.

Data	Automatic	Semi-automatic
Time for the job	2 mts	5 mts
Set up time	2 hrs	1.5 hrs
Cost per hour	Rs 20	Rs 12

Problem 11.2

The following details are given for a group of items.

Group	No. of Items Group	Average Weekly Consumption	Price Per Item (Rs)
I	310	16	04
II	50	5	10
III	50	390	15
IV	240	6	2
V	50	10	8
VI	50	200	10
VII	125	55	5
VIII	125	25	14

Classify the above items into A, B, and C categories on the assumption that

"A" items account for 80 per cent of the total consumption value,

"B" items account for 15 per cent of the total consumption value, and

"C" items account for 5 per cent of the total consumption value.

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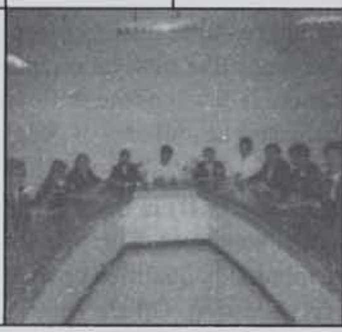
12

Human Resource Management in Small Business



A team of employees from a small business enterprise, from Hyderabad, Andhra Pradesh, involved in a training session focussing on human resource development.

"All the activities of any enterprise are initiated and determined by the persons who make up that institution. Plants, offices, computers, automated equipment, and all else that a modern firm uses are unproductive except for human effort and direction. Of all the tasks of management, managing the human component is the central and most important task, because all else depends on how well it is done."

—Renesis Likert

Learning Objectives

- Learn the concepts of HRM
- Identify the importance of HRM in small business
- Learn the various functions of HRD
- Discuss the industrial land labour laws relevant to small business

IMPORTANCE OF HUMAN RESOURCE MANAGEMENT

Human Resource Management (HRM) can be defined as a strategic and coherent approach to the management of an organisation's most valued assets—the people working there who individually and collectively contribute to the achievement of its objectives. In a small business the role of HRM is important as human capital is vital for the organisation.

HRM is a multi-faceted process involving various areas like selection, placement, induction, training, performance appraisal, career planning, and potential development. It also includes areas like motivation and development of the entire workforce within an organisation. It develops the skills and knowledge of people and also aims to bring about a change in the attitudes of people, with a view to extract the best in them.

Human Resource Development (HRD) is that component of HRM which deals with the development of human resources. Competent employees may not remain competent forever. Some are minimally qualified upon entering the organisation and require additional training or education. Others enter the organisation, capable of performing at the optimum level, but their skills become obsolete after some time. Organisations change over time and management must ensure that there is an appropriate match between individual ability and organisational needs for the future. Employee training gives individuals the specific skills that they require for effective execution of their responsibilities. Management development, career planning, career counselling and guidance are also the key responsibilities of HRD.

Functions of Human Resource Development

- Recruitment—advertising for new employees and liaising with employment agencies
- Selection—determining the best candidates from those who apply, arranging interviews, tests, and references
- Promotion—running similar selection procedures to determine progression within the organisation
- Pay—a minor or major role in pay negotiation, determination, and administration
- Performance assessment—coordinating staff appraisal and counselling systems to evaluate individual employee performance

- Grading structures—as a basis for pay or development, comparing the relative difficulty and importance of functions
- Training and development—coordinating or delivering programmes to fit people for the roles required by the organisation now and in the future
- Welfare—providing or liaising with specialists in a staff care or counselling role for people with personal or domestic problems affecting their work
- Communication—providing an internal information service, perhaps in the form of staff newspapers or magazines, handouts, booklets, videos
- Employee relations—handling disputes, grievances, and industrial action, often dealing with unions or staff representatives
- Dismissal—on an individual basis as a result of failure to meet requirements or as part of a redundancy, downsizing, or closure exercise, perhaps involving large numbers of people
- Personnel administration—record-keeping and monitoring of legislative requirements related to equal opportunities and possibly pensions and tax

HUMAN RESOURCE DEVELOPMENT

Harbison and Myers have defined human resource development as "the process of increasing the knowledge, the skills and the capacities of all the people in a society. In economic terms, it could be described as the human capital and its effective investment in the development of an economy".

For a small enterprise, the following aspects of human resource development are important:

(a) Manpower planning
(b) Recruitment, selection and placement
(c) Performance appraisal and development
(d) Employee compensation
(e) Motivation
(f) Communication

(a) Manpower planning: In the small-scale sector, manpower planning is usually a one-man show or a group decision with regard to their responsibilities or those of their employees. There is no assessment of manpower requirements, no job analysis, no job description, and no job specifications but they are aware of their business policies and of the goals to be achieved. Pursuant to these policies and goals, they decide the manpower required for specific positions and assign specific roles to each employee.

With the help of human resource management consultants, SSIs can be professionally guided on this crucial aspect to ensure that the organisation is made up of the right people. Box 12.1 describes the elements of the job description.

Box 12.1 Job Description Chart

Job: Title: Billing clerk

Supervisor: Store manager

Summary: Responsible for receiving payments against delivery of goods from godown, prepares and processes paperwork, maintains requisite documents

Duties and Responsibilities:

- Receiving and placing stocks in store
- Checks invoices against the goods received
- Inspection of goods received
- Codification and documentation

Job Specification:

Education: Graduate

Experience: Not compulsory

Skills: Knowledge of computers

(b) **Recruitment, selection, and placement:** There are no set rules for recruitment, selection, and placement of employees. In some small businesses/industries, employees are selected from known circles to ensure their honesty and loyalty. In order to employ skilled and educated persons who are efficient and professional, small firms should follow modern management rules for the selection and training of the employees for accurate and better results. The selection of an employee can be through public or private employment exchanges, training institutes or polytechnic colleges, newspaper advertisements, trade union and trade or professional associations. Applications should be called for on a prescribed form. The selection should precede the interview by the entrepreneur and/or other experts to select a person with the right qualifications and experience. The interview reveals additional factors such as the applicant's enthusiasm, ability to communicate, poise, and personal appearance. Selection should be made after verifying the antecedents of the person. After selection, the recruit should be made familiar with the enterprise, its policies, and goals. Before placement, training should be imparted by qualified trainers on the job to reorient skills, attitude, and expected behaviour to perform the job effectively. In certain businesses, job rotation, specialised training, or management development training is also considered necessary.

(c) **Performance appraisal and development:** The output of an employee in the business is of paramount importance. Productivity is linked to the employee's performance. Modern management suggests various ways for personnel managers to appraise job performance. The basic objective of such an exercise is to measure an employee's strengths and weaknesses and aim for greater efficiency and improvement. Towards this end, opportunities are

SNAPSHOT

Human Resource Management (HRM) can be defined as a strategic and coherent approach to the management of an organisation's most valued assets—the people working there who individually and collectively contribute to the achievement of its objectives. HRD is that component of HRM which deals with the development of human resources. For a small enterprise, the following aspects of human resource development are important.

- Manpower planning
- Recruitment, selection, and placement
- Performance appraisal and development
- Employee compensation
- Motivation
- Communication

provided for the employee to improve upon and develop the required level of skills. A system of appraisal should be developed where efficient employees are rewarded by promotions/increments in emoluments and given more important job responsibilities. Training should also be imparted to develop skills to the required level of performance whenever necessary.

(d) Employee compensation: Employee satisfaction is extremely important for the continuity of any business activity. The SSI unit should evolve a satisfactory employee compensation system by: (a) grading jobs; (b) formulating wage scales for each job specification; (c) proposing effective means of stimulating and rewarding employees; and (d) providing for stability of employment. It should provide the going wage or a better wage to attract and retain good employees. Employees should be rewarded on merit for loyalty and motivation. Fringe benefits like health plans, pension plans, life insurance, bonus, and profit sharing should be compared favourably with competitors.

(e) Motivation) For the success of any enterprise, motivation at work is the most important requirement. Motivation is conceived with self-inspiration, propelling an employee or a person into action and keeping him at work. It is a psychological concept requiring the management to look into the forces operating within an individual including his/her safety needs, social needs, and ego needs as well as factors that motivate him/her to act or not to act in a particular way. A positive balance should be maintained to ensure a continuous and dynamic process for the success of the enterprise in terms of a) higher efficiency; b) better human relations; c) lower absenteeism and turnover; and d) better image of the enterprise.

Herzberg's two-factor theory of motivation consists of maintenance and motivational factors. Maintenance factors are external to the job but relate to the job environment and include the policy of the enterprise, supervision, and interpersonal relations, working conditions, salary, job security, status, and personal life. Motivational factors relate to the job itself and include feelings of achievement, recognition, and challenges at work, advancement, increased

Box 12.2 Ten Tips for Questionnaires on Employee Motivation

1. *What is the "primary aim" of your company?*

   Your employees may be more motivated if they understand the primary aim of your business. Ask questions to establish how clear they are about your company's principles, priorities, and mission.

2. *What obstacles stop employees from performing to best effect?*

   Questionnaires on employee motivation should include questions about what employees are tolerating in their work and home lives. The company can eliminate practices that zap motivation.

3. *What really motivates your staff?*

   It is often assumed that the same things motivate all people. Actually, a whole range of factors motivates us. Include questions to elicit what really motivates employees, including learning about their values. Are they motivated by financial rewards, status, praise and acknowledgment, competition, job security, public recognition, fear, perfectionism, results...?

4. *Do employees feel empowered?*

   Do your employees feel they have job descriptions that give them some autonomy and allow them to find their own solutions or are they given a list of tasks to perform and simply told what to do?

5. *Are there any recent changes in the company that might have affected motivation?*

   If your company has made redundancies, imposed a recruitment freeze, or lost a number of key people these will have an effect on motivation. Collect information from employees about their fears, thoughts, and concerns relating to these events. Even if they are unfounded, treat them with respect and honesty.

6. *What are the patterns of motivation in your company?*

   Who is the most motivated and why? What lessons can you learn from patches of high and low motivation in your company?

7. *Are employee goals and company goals aligned?*

   First, the company needs to establish how it wants individuals to spend their time based on what is most valuable. Second, this needs to be compared with how individuals actually spend their time. You may find employees are highly motivated but about the "wrong" priorities.

8. *How do employees feel about the company?*

   Do they feel safe, loyal, valued, and taken care of? Or do they feel taken advantage of, dispensable, and invisible? Ask them what would improve their loyalty and commitment.

9. *How involved are employees in company development?*

   Do they feel listened to and heard? Are they consulted? And, if they are consulted, are their opinions taken seriously? Are there regular opportunities for them to give feedback?

10. *Is the company's internal image consistent with its external one?*

    Your company may present itself to the world as the "caring airline", "the forward thinking technology company", or the "family hotel chain". Your employees would have been influenced, and their expectations set, to this image when they joined your company. If you do not mirror this image within your company in the way you treat employees you may notice motivation problems. Find out what the disparity is between the employees' image of the company from the outside and from the inside.

responsibility, and opportunity for growth. They are unidirectional, that is, their effect can be seen in one direction. Maintenance factors create dissatisfaction whereas motivational factors create satisfaction. Attention should be paid to employees with regard to both factors for higher morale and productivity.

(f) **Communication)** Effective communication is one of the main requirements for developing positive attitudes among employees. Communication is essential for effective supervision, effective staffing, coordination and control as well as for industrial harmony and peace. Three-way communication channels—upward, downward, horizontal—among departments should be defined as important personnel functions. Forms of communications—oral or written—should be specified with adequate clarity, flexibility, and maximum participation at each level in order to enhance efficiency and productivity in the unit.

DISCUSSION FORUM

- Explain the significance of Human Resource Management in a small business.
- What are the various functions of Human Resource Development?

INDUSTRIAL RELATIONS, LABOUR LAWS, AND ENVIRONMENTAL AND POLLUTION CONTROL LAWS

No business or industry can survive without worker cooperation and industrial peace. Therefore, efforts should be made to ensure that relations between workers and owners/managers of the firm remain peaceful. However, disputes are frequent due to expectations on the part of both employers and employees. The government has legislated certain basic norms to be followed to avoid dispute and maintain peace, to obtain maximum output from their combined activity in the interest of the nation's economy. The legislation can be categorised as follows.

1. **Laws regulating the conditions of work in factories and establishments**
   - General laws, applicable to all factories and establishments, such as Factories Act, 1948
   - Specific laws, applicable to specific industries, like Mines Act'1952, Indian Merchant Shipping Act, 1923, and Plantation Labour Act 1998.
2. **Laws relating to wages**
   - Minimum Wages Act, 1948
   - Payment of Wages Act, 1936
3. **Law relating to social security measures**
   - Workmen's Compensation Act, 1923
   - Employees' State Insurance Act (ESI), 1948
   - Employees' Provident Fund Act (EPF) and the Family Pension Fund Act, 1952

4. **Laws relating to workers' associations and disputes**
   - Trade Union Act, 1926
   - The Industrial Disputes Act, 1947
5. **Laws relating and women and child workers**
6. **Laws relating to environment and pollution control**
   - Water (Prevention and Control of Pollution) Act, 1974
   - Air (Prevention and Control of Pollution) Act, 1981
   - Environment (Protection) Act, 1986

SNAPSHOT

Industrial Relations, Labour Laws, and Environmental and Pollution Control Laws

- ***Laws regulating the conditions of work in factories and establishments***
  - General laws, applicable to all factories and establishments: Factories Act, 1948
  - Specific laws, applicable to specific industries, like Mines Act, 1952, Indian Merchant Shipping Act, 1923, and Plantation Labour Act, 1998
- ***Laws relating to wages***
  - Minimum Wages Act, 1948
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- ***Laws relating to women and child workers***
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1. Laws Regulating the Conditions of Work in Factories and Establishments

SSIs are required within their State of operations, to seek registration under the State's legislation (adopted or legislated in different years in different States) like Shops and Commercial Establishments Act or Trade Employees' Act or any other Act requiring registration, by making a written application in the prescribed form with the name of the firm, category of establishment that is, shop, hotel, restaurant, theatre, public amusements or entertainment, number of employees, and prescribed fee. The registration certificate is required to be displayed in the establishment and has to be renewed at intervals.

The Shops and Commercial Establishments Act regulates the working hours of shops, commercial establishments, weekly holidays, terms and conditions of payments of wages, leave and wages during the leave period, safety and security of workers including cleanliness, lighting and ventilation, precautions against fires and accidents, grievances of workers and redressal procedures, maintenance of record of employees, issuance of letter of appointments, maintenance of registers, and so on. The establishment is open for inspection by authorised persons under the Act like the inspector of shops and establishments.

SSIs are required to be registered with the Chief Inspector of Factories under the State's Factories Act. Prior permission is required in writing for the factory site and location. The Act regulates and deals with the working conditions in the factories with regard to workers' health, safety, welfare, working hours of adults, employment of young persons, leave, wage, and penalties for defaults.

The Factories Act, 1948

If you employ ten or more workers and are engaged in a manufacturing process with the aid of power, or are manufacturing without the aid of power and employing 20 or more workers directly or through contractors, you are covered by this Act.

The objective of this Act is to provide for the health, safety, and welfare of workers.

The Act requires you to maintain cleanliness in your premises and make arrangements for the treatment of wastes and effluents due to the manufacturing process. The place where work is carried out should have ventilation and circulation of fresh air, comfortable temperature and artificial humidification as per standard. There should be sufficient space per worker in every room (minimum 500 cubic feet), sufficient lighting, and prevention of glare and avoidance of shadow. You should also make arrangements for the supply of wholesome drinking water, latrines, urinals, and spittoons.

The machinery in your factory that could be injurious should be fenced, precautions should be employed on dangerous machines unless the operator has been given sufficient training or is being supervised by a person who has thorough knowledge and experience of the machine. If you have hoists, they should be of good construction and properly maintained. If shifting machines, ropes, and lifting tackles are used, they should also be a good quality and be properly maintained. If your factory uses revolving machinery, the speed limit should be complied with. If your manufacturing unit requires pressure above atmospheric pressure in any machine, you should ensure safe working environment for that work place be kept free from obstruction and clear from substances likely to cause a person to slip. You must take precautions to protect the eyes of your workers from fragments and also protect them from dangerous fumes. You must ensure that there is a means to escape in case of fire and that there is a system of warning for all the employees in such an eventuality. You must also ensure that the building in which your employees are working is safe.

You must provide suitable facilities for your employees' washing and sitting arrangements, if they are working in a standing position. At least one first-aid box should be kept in the factory premises.

The normal working hours in your factory for an employee should not exceed 48 in a week and a rest day should be given weekly. An employee should not be made to work more than nine hours in a day. But in case he is required to work beyond these hours, he is to be paid overtime wages at double rate. He should be given an interval of rest for at least half an hour after five hours. Your employees should also be given annual leave with wages if they work for 240 days or more in a year, to be calculated at the rate of one day for every 20 days worked. If you are covered by this Act, your factory plans must have the approval of the Chief Inspector of Factories. Registration and licensing is also required on payment of the prescribed fees.

Special Provisions for Industries involving Hazardous Processes

The Factories Act has been recently amended by Factories (Amendment) Act, 1987, most of the provisions of which have come into force from December 1, 1987. Provisions regarding exposure limits for chemical substances have come into force from June 1, 1988.

The amended Act makes special provisions for industries involving hazardous processes, where unless special care is taken, raw materials used, intermediate or finished products, or by-products, effluents, and waste may cause impairment of health of persons working in the factory and pollution of the general environment. The Act also covers maintenance, storage, transportation, and disposal of wastes. Limits of exposure of chemical substance have also been laid down.

So, in case your factory comes under the schedule of hazardous process industries, please check and take these additional steps.

The additional obligations of employers of factories involving hazardous processes are listed below.

(1) To take approval of the site appraisal committee before constructing the factory.
(2) To inform about the safety policy of the factory to the Chief Inspector of Factories.
(3) To work out an emergency plan and disaster control measures.
(4) To arrange for periodic medical examination of workers.
(5) To have workers' participation regarding safety and health.
(6) To disclose all information regarding danger and health hazards and measures to overcome the same to the workers and the nearby population.

2. Laws Relating to Wages

For any trading or manufacturing establishment, the provisions of the Minimum Wages Act, 1948; the Payment of Wages Act, 1936 apply.

Minimum Wages Act, 1948

This Act has been adopted by State governments to prevent exploitation of workers, for the fixation and payment of minimum wages, and to oversee the welfare of the workers in the territorial jurisdiction of the State.

The Act prescribes for the fixation of wages a) a minimum time rate; b) a minimum piece rate; c) guaranteed time rate; and d) an overtime rate.

The minimum rate of wage may consist of a) a basic rate and cost of living allowance or b) a basic rate with or without the cost of living allowance and the cash value of the concession in respect of essential commodities supplied at a concessional rate.

The Act prescribes that wages shall be paid in cash, although it empowers the appropriate government to authorise the payment of minimum wages either wholly or partly in kind in particular cases. It provides that the competent authority shall compute the cost of living allowance and cash value of concession in respect of supply of essential commodities at concessional rates at certain intervals. All establishments covered by the Act are required to maintain registers and office records in the prescribed manner.

The Act empowers the appropriate government to fix the numbers of hours of work per day, to provide for a weekly holiday, and the payment of overtime wages of which the minimum rates have been fixed under the Act.

The Act provides the procedures for dealing with companies arising out of the violation of provisions of the act and for imposing penalties for offences committed under this act. The act also provides for the appointment of inspectors and other authorities to hear and decide claims arising out of payment of wage less than the minimum rates and other matters regarding rest or overtime. The state governments have been empowered under this Act to make rules with regard to matters specified therein for carrying out the purpose of the Act.

Payment of Wages Act, 1936

The objective of this Act is to regulate the payment of wages to a certain class of persons employed in industry and is of two kinds:

- the date of payment of wages and
- deductions from wages, whether fine or otherwise.

The Payment of Wages Act, 1936, extends to the whole of India. It came into force on March 28, 1937. It applies to the payment of wages to

(a) persons employed in any factory; and
(b) persons (other than in a factory) employed in any railway or by persons fulfilling a contract with the railway administration.

The State government is empowered to make the Act applicable to any class or group of industrial establishments. The Act does not apply to wages payable in respect of the wage period if the average wage for such a wage period is Rs 400 or more a month.

Payment of wages: Every employer shall be responsible for the payment of wages to persons employed by him under this Act.

Fixation of payment of wages: Every person responsible for the payment of wages under Section 3 shall fix wage periods in respect of which such wages shall be payable. No such wage period shall exceed one month.

Time of payment of wages: If the number of persons employed in a factory, an industrial establishment, or a railway, including daily rated workers, is less than 1,000, wages must be paid before the expiry of the seventh day after the last day of the wage period. In other cases, the payment must be made before the expiry of the tenth day after the last wage period.

In the event of termination of employment of any employee, the wages earned by him shall be paid before the expiry of the second working day from the day on which his employment is terminated. If the employment is terminated due to closure of an establishment or for any other reason than a weekly or other recognised holiday, wages shall be paid before the expiry of the second day from the day on which his employment is terminated. All payments of wages should be made on a working day, and be paid in current points or currency notes or in both.

Deduction from wages: No deductions of any kind should be made from wages payable except those authorised by the Payment of Wages Act. Every payment made by the employee to the employer or his agent is treated to be a deduction from the wages. Any loss of wages resulting from the imposition of the following penalties shall not be deemed to be a deduction from wages.

- The withholding of increment or promotion (including the stoppage of increment at an efficiency bar).
- The reduction to a lower position or time scale or to a lower stage in a time scale.
- Suspension.

These penalties are not deemed to be deductions provided the rules framed by the employer for the imposition of such penalties are in conformity with the requirements, if any, which may be specified in this behalf by the State government by notification in the *Official Gazette*.

Deductions from the wages of an employed person shall be made only in accordance with the provisions of this Act and may be of the following kinds only.

(a) Fines.

(b) Deductions for absence from duty.

(c) Deductions for damage to or loss of goods expressly entrusted to the employed person for custody, or for loss of money for which he is required to account, where such damage or loss is directly attributable to his neglect or default.

(d) Deductions for house accommodation supplied by the employer or by government or any housing board set up under any law for the time being in force (whether the government or the board is the employer or not) or any other authority engaged in the business of subsidising house accommodation which may be specified in this behalf by the State government by notification in the *Official Gazette*.

(e) Deductions for such amenities and services supplied by the employer as the State government or any officer specified by it in this behalf may, by general or special order, authorise; (Explanation: The word "services" in this sub-clause does not include the supply of tools and raw materials required for the purpose of employment.)

(f) Deduction for recovery of advances of whatever nature and the interest due in respect thereof, or for adjustment of overpayment of wages.

(g) Deduction for recovery of loans granted for house building or other purposes approved by the State government, and the interest due in respect thereof.

(h) Deductions of income tax payable by the employed person.

(i) Deductions required to be made by order of a court or other authority competent to make such an order.

(j) Deductions for subscriptions to, and for repayment of advances from any provident fund to which the Provident Fund Act, 1925, applies or any recognised provident fund as defined in Section 558A of the Indian Income Tax Act, 1922, or any provident fund approved in this behalf by the State government, during the continuance of such approval.

(k) Deductions for payments to cooperative societies approved by the State government or any officer specified by it in this behalf or to a scheme of insurance maintained by the Indian Post Office.

(l) Deductions made with the written authorisation of a person employed for payment of any premium of his life insurance policy to the Life Insurance Corporation of India established under the Life Insurance Act, 1956, or for the purchase of securities of the Government of India or any State government or for being deposited in any Post Office Savings Bank in furtherance of any savings scheme of any such government.

(m) Deductions for payment of insurance premia on Fidelity Guarantee Bonds.

(n) Deductions for recovery of losses sustained by a railway administration on account of acceptance by the employed person of counterfeit or base coins or mutilated or forged currency notes.

(o) Deductions for recovery of losses sustained by a railway administration on account of the failure of the employed person to invoice, to bill, to collect or to account for the appropriate charges due to that administration whether in respect of fares, freight, demurrage, wharfage and carnage or in respect of sale of food in catering establishment or in respect of sale of commodities in grain shops or otherwise.

(p) Deductions for recovery of losses sustained by a railway administration on account of any rebates or refunds incorrectly granted by the employed person where such loss is directly attributable to his neglect or default.

The total amount of deductions, which may be made in any wage period from the wages of any employed person, shall not exceed the wage

- in case where such deductions are wholly or partly made for payments to cooperative societies 75 per cent of such wages and
- in any other case, 50 per cent of such wages.

But where the total deductions exceed 75 per cent or, as the case may be, 50 per cent of the wages, the excess may be recovered in such manner as may be prescribed.

The Act provides for the maintenance of a regular record by the employer and offers the same for inspection to inspectors for default in compliance of the provisions of the Act. The penalty for offences and procedure for punishment has been provided in the Act.

While adopting the Act, several State governments have made amendments in the act. Different rules have been made under the Act towards payment of wages, rules for procedures, railways, other main rules, and those for transport service, imposition of penalties, Scheduled employment, deduction for the National Defence Fund and saving scheme, and so on.

3. Law Relating to Social Security Measures

Workmen's Compensation Act, 1923

The Act provides for payment to the workmen by a certain category of employer compensation for injury by accident sustained at work. The chances for injuries have enhanced due to growing complexity in industry with the increasing use of machinery. The Act mitigates the effect of accidents by providing for suitable medical treatment and cheaper and quicker disposal of disputes relating to compensations special tribunals rather than under civil law.

Salient Features

Employers are obliged to pay compensation to employees who claim benefits under this Act. A workman or his dependants may claim compensation if the injury has been caused by accident arising out of and in the course of employment, but a workman loses his right to compensation if the accident is attributed to the workman who was at the time of the accident intoxicated by liquor or drugs or if it was caused by his wilful disobedience of rules or disregard of safety devices.

The definition of a workman in section 2(1) (n) does not cover persons employed in an administrative or a clerical capacity, drawing more than Rs 500 per month (except railway servants). Those employed through subcontractors by a person fulfilling a contract with the railways are also entitled to benefits under this Act. The amount of compensation payable to a workman or his dependants depends on the nature of the injury and the resulting disablement and will be determined by a reference to average monthly wages in schedule IV.

In case of fatal accidents, the following procedure is provided in the Act.

(a) In all cases fatal accidents are to be brought to the notice of the commissioner

(b) In case of admission of liability by the employer, the amount of compensation is to be deposited with his liability. The commissioner must decide whether or not there is a ground for the claim.

The commissioner may inform the dependents of the injury and it is open to them to prefer a claim or not. A subcontractor may indemnify his contractor if he has to pay compensation either to a principal or to a workman. Out of the compensation, the commissioner is authorised to deduct a sum of Rs 50 and pay the same to the person who has incurred the funeral expenses of a deceased workman.

Amount of Compensation and Payment

In determining the amount of compensation, the nature of injury must be kept in mind. In order to ascertain the amount of compensation, the average monthly wages of the workmen should be worked out and the total sum payable ascertained thereafter.

The amount of compensation is not to be assigned, attached, charged or passed on to any person other than the workman by operation of law and no claim can be set off against the same. The compensation bears the first charge on the assets of the employer's organisation if sought to be transferred. The State government may ask the employer to file the required returns to calculate the compensation payable. The Act provides for penalties in cases of default and procedure for appeals and so on. State governments have been empowered to frame rules to carry out the provision of this Act and with regard to the matters specified in the Act.

Employees' State Insurance Act, 1948

This Act provides certain benefits to employees in the event of sickness, maternity, and employment injury. It applies to all factories including government factories (other than seasonal factories). In the event, the Central government, in consultation with the ESI Corporation, which administers the scheme, or the local government, extends several provisions of the Act to other establishment or class of establishments, it has to give six months notice. It covers persons employed directly and indirectly, including clerical staff, but does not apply to a member of Indian navy, military or air force or to any person whose wages exceed Rs 1,000 per month.

The Act provides for the creation of the employees' state insurance fund for payment of benefits to the insured person, for meeting administration expenses in addition other authorised purposes. The funds created mainly by the contribution from the employers and the employees and is held and administered by the ESI Corporation. The Corporation may accept grants, donations, and gifts from the Central government or any State government, local authorities, or any individual or body whether incorporated or not.

The Employees' State Insurance funds can be used only for

1. payments of benefits and provisions of medical treatment and attendance of insured persons and their families where the medical benefit is extended to their families;
2. payment of fees and allowances to members of the corporation, the standing committee and the medical benefit council, the regional board, the local committees and the regional and local medical benefits councils;
3. payment of salaries, leave and joining time allowances, travelling and compensatory allowances, gratuity and compassionate allowances pensions, contribution to provident and other benefit funds of officers and servants of the corporation;
4. establishment of hospitals, dispensaries, and other institutes for the benefit of insured persons and their families;
5. payment of contribution to any State government, local authority, or any private body or individual, towards the cost of medical treatment and attendance provided to insured persons and their families;
6. defraying the cost including expenses of auditing the accounts of the corporation and the valuation of its assets and its liabilities;

7. defraying the cost of employees' insurance courts set up by these Acts;
8. payment of any sum under the contract entered into for the purpose of this Act by the corporation or standing committees or by any officers duly authorised by the corporation or standing committee in the behalf;
9. payment of sums under any degree, order, or reward of any court or tribunal against a corporation;
10. defraying the cost and other charges of instituting or defending any civil or criminal proceedings arising out of any action taken under this Act;
11. defraying expenses, within the limits prescribed on measures for the improvement of the health and welfare of insured persons and for the rehabilitation and reemployment of the insured persons who have been disabled or injured; and
12. such other purposes as may be authorised by the corporation with the previous approval of the government.

There are six types of benefits that the Act provides to insured persons, their dependants or certain other persons. These benefits are listed below.

1. Sickness benefits
2. Maternity benefits
3. Disablement benefits
4. Dependants' benefits
5. Medical benefits
6. Funeral benefits

Benefits are assignable or attachable. However, the right to receive any payment for any benefit under this Act is not transferable or assignable (Section 60). Further, no cash benefits payable under this Act is liable to attachment or sale in execution to any degree or order of any court. When a person is entitled to any of the benefits provided by this Act, he is not entitled to receive any other similar benefits (Section 61). The Act also provides punishment for false statement or failure to pay contribution and is supported by the Employees State Insurance (Central Rule) 1950 and the Employees' State Insurance (General) Regulations 1950. The Employees State Insurance Court adjudicates all matters, questions, and disputes that may arise with respect to the insurance of workmen.

Employees' Provident Fund and the Family Pension Act, 1952

The EPF applies to manufacturing units specified in Schedule 1 in which 20 or more persons are employed or to other establishment employing 20 or more persons or to a class of such establishment, which may be specified by the Central government. The Employees' Provident Fund Scheme provides for the establishment of provident funds for employees to be administered by the Central government through a central board of trustees. This is a body corporate with perpetual succession and a common seal. The EPF consists of the contributions made by the employer and the employee of the factory.

The Act also provides for the Employees' Family Pension Scheme that ensures families pension and life insurance benefits to the employees of the establishment. Under this scheme, a family pension fund is established through contributions made by the employer and the employee. The Central Board administers the fund. The creation of this fund should not however be made at the cost of the employees' wages. The Act also provides for the appointment of inspectors, penalties and punishments to take care of defaults and offences.

4. Laws Relating to Workers' Associations and Disputes

Two important enactments which deal with industrial relations and are applicable to all establishments including SBEs/SSIs are the

- Trade Union Act, 1926 and
- Industrial Disputes Act, 1947.

Trade Union Act 1926

Workers become a stronger bargaining power by uniting themselves through associations known as trade unions, which help to regulate relations between employees and employers. Disputes between them are known as trade disputes. A trade union should be registered under this Act to derive a legal status. The Act also provides the right and liabilities of a registered trade union. It provides immunity from certain provisions of criminal an civil law. For example, no member of a registered trade union is liable for a criminal conspiracy under the Indian Criminal Code and similarly not subject to civil suit in respect of anything done in furtherance of a trade dispute. State governments may make their own regulations for the purpose of carrying out the provisions of the Act and may provide for the following matters.

- The manner in which trade unions and the rules of trade unions shall be registered and the fees payable on registration
- The transfer of registration in the case of any registered trade union which has changed its head office from one State to another
- The manner in which and the qualification of the persons by whom the accounts of registered trade unions or any class of such unions shall be audited
- The conditions subject to which inspection of documents kept by the registrar shall be allowed and the fees which shall be chargeable in respect of such inspections
- Any matter which is to be or may be prescribed

Regulations so made shall be published in the *Official Gazette* and all such publications shall have the effect as if enacted in this act. The Act also provides for penalties and procedures. The following defaults are made punishable under section 31 of the act: (a) failure to give notice which is required to be given to a registered trade union and (b) failure to send any statement or other document as required under this Act. Every office bearer or other person bound by the rules of the Act to give any information or send any statement or document shall in case of default be punishable with a fine.

Only the court of the presidency magistrate or a magistrate of the first class shall try an offence under this Act. Any other court inferior to these are expressly deprived of jurisdiction to any offence under this Act. The complaint may be made either by the registrar of the trade union or by someone else with the previous sanction of the registrar. Where the offence claimed is one under section 32 of the Act (supplying false copies of the rules or of alterations of the rules), the complaint may be made by the person to whom the false copy was given. It is further provided that complaint shall be made within six months of the date on which the offence is alleged to have been committed.

Industrial Disputes Act, 1947

The objective of this Act is to make provisions for the investigation of settlement of industrial disputes and for certain other purposes. Its main aim is to ensure industrial peace through voluntary negotiations and compulsory adjudication. The Act also prescribes the procedure for setting disputes between employers and workmen.

It has been amended by different state governments for promoting bargaining, prescribing industrial peace and good relations between workers and employers, preventing illegal strikes and lockouts, and providing relief to workman in the event of a lay off and/or retrenchment by employers.

The Act provides the machinery for the settlement of industrial disputes which includes (a) a works committee, (b) conciliation officers, (c) Board of Conciliation, (d) court of enquiry, (e) labour court, (f) industrial tribunals, and (g) national tribunals. The Act prescribes the procedure for making reference to the Board, courts, or tribunals, or national tribunals and a cluster of powers of the above conciliation and adjudication machinery in the matter of making settlements and awards. The Act also provides for penalties and procedures and empowers the State government to make rules for giving provision of the Act.

5. Law Relating to Women and Child Workers

Legislation such as the Factories Act, 1948, Mines Act, 1952, Plantation Labour Act, 1951, Children (Pledging of Labour) Act, 1933, and the Beedi and Cigar Workers (Conditions of Employment) Act, 1966 contain relative provisions with a view to eliminate the exploitation of women and child labour and to regulate the conditions of their work. Small business and SSI units must take care to follow the provisions of the respective acts and observe the spirit of the law enshrined therein, wherever required.

6. Laws Relating to Environment and Pollution Control

- Water (Prevention and Control of Pollution) Act, 1974
- Air (Prevention and Control of Pollution) Act, 1981
- Environment (Protection) Act, 1986

Water (Prevention and Control of Pollution) Act, 1974

The objectives of this Act are as follows.

- For maintaining or restoring the purity of water resources of the country
- Prevention and Control of water pollution
- Establishment of boards for the points mentioned above
- Assigning power to such boards

To regulate water pollution, the Central government has appointed a Central Pollution Control Board (CPCB). State governments have also appointed similar boards.

Powers and Functions of Central Board

The main function of the Central Board is to promote cleanliness of streams and wells in different areas of the State by

- advising the Central government;
- coordinating activities of the State Boards;
- providing technical assistance to the State Boards;
- conducting programmes, seminars, and publishing data; and
- laying down standards for cleanliness of streams and wells.

Functions of State Board

The main function of State Board is prevention and control of water by

- investigation and research relating to cases of water pollution and prevention;
- inspection of sewage/trade effluents;
- evolving reliable economical methods of treatment;
- establishing laboratories for checking the level of water pollution and reasons thereof;
- declaring water pollution prevention and control area and modifying the same;
- charging and curbing any person abstracting water in more quantity from any stream or well;
- controlling or directing discharge of sewage or track effluent into such streams or wells;
- power to take samples of effluents;
- power of entry and inspection;
- performing functions of the board as defined in the act;
- prohibition of use of stream or well for disposal of pollution matter.

If a person fails to comply with any conditions of the Board, the Board issues a notice to the guilty person regarding the pollution and orders him/her to rectify the problem within a prescribed time limit (30 days in most cases). If the problem is not rectified within the prescribed time limit, the Board levies an appropriate penalty along with interest.

Furnishing Information to State Board and Other Agencies

- If water is polluted due to accident or any other reason, the Board should be informed
- The Board has the power to approach the court in case of violation of any standards after giving notice to a particular person
- The Board can give directions of closure of an offending industry

Penalties and Procedures

Penalties are levied only if the Board receives information on the contravention of the following points.

- Information about abstraction of water or discharge of effluents
- Information regarding construction, installation or one of any establishment of or any disposal system
- Failure to restrain from discharging poisonous and polluting matters

Offences by Companies

The person in charge of the industrial unit and the company are jointly responsible and if charged of the offence are liable for penalties, if proved. However charges against individuals are taken back if they can prove that a particular offence was committed without their knowledge of the crime being committed by the company.

Air (Prevention and Control of Pollution) Act, 1981

Any solid, liquid or gas substance including noise present in atmosphere tend to be injurious to human beings or other living creatures or plants/property/environment.

Functions of Central Board

The functions of the central Board as per the Air Act, 1981 are similar to the functions of the Central Board constituted under the Water Act, 1974. The broad areas are to

- advise the Central government;
- organise seminars, training programmes, collect, complete and publish data relating to air pollution; and
- lay down standard for quality of air.

State Pollution Control Boards also perform functions similar to the functions of the State Board as per Water Act, 1974.

Measures for Prevention and Control of Air Pollution

- Declaration of Air Pollution Control Area (APCA)
- Deciding which fuel may cause pollution
- No appliance other than approved ones can be in the premises situated in an air polluted control area
- Prohibiting burning of materials which may cause pollution

Under the Motor Vehicle Act, 1939, the State Board lays down standards for emission of air pollutants from automobiles. Recently, State governments have started enforcing these standards more vigorously. For example, it is now compulsory for vehicles to have pollution under Control certificate (PUC). Cars that are now manufactured in India are required to satisfy European Union (EU) norms. The already existing cars have to get catalytic converters attached to their exhausts.

Restriction on Use of Certain Industrial Plants

- Permission is required for an industrial plant in air pollution control
- With prescribed form along with prescribed fee

If any area is declared as APCA, the industrial unit is required to take permission for setting up a factory within three months after declaration.

- Control equipment cannot be charged without permission
- Chimney should be erected if required and it should be of the height specified under the APCA
- Any of the conditions set by the Board may vary due to technology improvements
- If an industrial plant is transferred to another person, then the new person has to comply with the rules of the act
- No industry can discharge air pollution in excess of standards laid down
- The Board can make application to a court for restraining persons from causing air pollution
    - Application to a court not inferior to that of a metropolitan magistrate or judicial magistrate of first class
    - All expenses incurred by the Board in implementing the directions of the court are recoverable from the person concerned

You may furnish information to the State Board and other agencies regarding emissions of the unit so that the Board helps you to take some remedial measures in your industrial unit.

Powers of the Board

- Power of entry and inspection for performing functions of State Board
- Examining and inspecting any control equipment, industrial plant, record, register, document or any material object for conducting a search
- Power to obtain information on air pollution
- Type of air pollutants emitted into atmosphere and its level
- Power to take samples
- Report of analysis is to be submitted in triplicate

Penalties and Procedure

- Minimum one and a half year imprisonment extending upto six years with fine
- Failing which, additional fine up to Rs 5,000/- for every day
- If failure continues up to one year, minimum imprisonment of two years extending upto seven years.

Environment (Protection) Act, 1986

The environment includes water, air, land, and the inter-relationship which exists among water, air, and land and human beings, other living creatures, plants, and microorganisms.

Scope and Scheme

This Act fixes responsibilities on persons carrying on industrial operations or handling hazardous substances to comply with certain safeguards for the prevention, control, and abatement of environmental pollution to furnish information to the authorities.

The Central government has been granted general power under the Act for taking necessary measures to protect the quality of environment and for laying down safeguards for prevention of accidents and handling hazardous substances.

Under this Act, the Central government has powers to make rules regarding the following matters.

- Standards of quality of air, water, or soil
- Maximum permissible limit of concentration of various environmental pollutants
- Procedures and safeguards for handling hazardous substances
- Power to appoint officers for supervision, direction, and control
- Power to issue direction for withdrawal of prohibition
- Power to enter, inspect, take samples and so on.

The Central government has established environmental laboratories and has accorded recognition to some private laboratories to carry out certain functions under the Act.

Environmental Clearances and Location of Industries

- The Central government may prohibit or restrict the location of industry on considering factors such as quality of environment, maximum allowable limits of concentration, likely commission or discharge from proposed industry.
- Also restriction on mining operations, cutting of trees, grazing by cattle in certain areas, construction of any clusters of dwelling units, farms, houses, roads, and so on.
- No industrial project can be set up or expanded unless it has been accorded environmental clearance by the Central or State government.

Environmental Audit

It is mandatory for every person carrying on an industry under section 25 of the Water Act/section 5 of the Air Act/both/Hazardous Waste Management Rules to submit an environmental audit report every year on or before May 15.

DISCUSSION FORUM

- Discuss the labour laws relevant to SSIs.
- Explain environmental pollution control acts.

SUMMARY

- HRM of small business or small industries involves manpower planning, recruitment, selection, and training of the persons recruited. In new enterprises this is not an easy task due to inexperience of the entrepreneur but in franchised business or in acquisition of a running concern, it is easier as there exists experienced staff.

- In all forms of organisations, the entrepreneur has to undertake a common task of appraisal of the performance of the staff. While the traditional thumb rule works to a certain extent, modern appraisal techniques are invaluable.
- An important aspect of HRM is maintenance of industrial peace and avoidance of employee dissatisfaction. Though it appears to be a daunting prospect, this is possible irrespective of the size of the business, by ensuring an effective two-way communication in the enterprise.
- Another aspect of HRM is adherence to the labour laws that are applicable to the enterprise. This helps build confidence in the employer as well as helps to ensure the well being, safety, and security of all employees.

KEY WORDS

- Human Resource Management
- Human Resource Development
- Manpower planning
- Recruitment
- Selection
- Placement
- Performance appraisal
- Employee compensation
- Motivation
- Communication
- Job description chart
- Industrial relations
- Labour laws
- Factories Act
- Minimum Wages Act, 1948
- Payment of Wages Act, 1936
- Workmen's Compensation Act, 1923
- Employees' State Insurance Act, 1948
- Employees Provident Fund Act, 1952
- Family Pension Fund Act, 1952
- Trade Union Act, 1926
- Industrial Disputes Act, 1947.

EXERCISES

ACTIVITY 12.1

Write two to three sentences on each of the following Acts.

1. Factories Act
2. Minimum Wages Act
3. Employees' Provident Fund Act
4. Workmen's Compensation Act

CASE STUDY

Case 12.1: A Delinquent Supervisor

Mr Shrinath worked as production supervisor in a small company called Prominent Enterprises, which employed around 25 workers. The company manufactured various types of castings. Prominent Enterprises was a partnership firm owned by two partners, Mr Jagadesh (a mechanical engineer by profession) and Mr Prakash (a chartered accountant by profession). Mr Shrinath reported to Mr Jagadesh who looked after the production. Mr Shrinath was a distant relative of Mr Prakash.

Mr Jagadesh found Mr Shrinath absent from his duties on the shop floor on two occasions. Mr Jagadesh later learned through the workers that Mr Shrinath had been seen wandering about, reading books in the library and talking to employees in the canteen.

One morning Mr Jagadesh found that Mr Shrinath was one hour late to work and called him to his office and talked to him about his general attitude towards his job. He reminded him of his responsibilities to the enterprise as an employee in a supervisory capacity. Mr Shrinath apologised and promised that he would not be late for work again.

Mr Jagadesh, still concerned with Mr Shrinath's attitude, discussed it with Mr. Prakash. The next day Mr Prakash called Shrinath to his office and talked to him on a very personal level about his indifference towards his job. He reminded Mr Shrinath that his being relative made it uncomfortable for all concerned. From that day Mr Shrinath's performance improved and his attitude towards work also changed.

Two months later, during his morning visit to the shopfloor, Mr Jagadesh found Mr Shrinath missing, when he should have been attending to his supervisory duties. Mr Jagadesh was told by the workers that Mr Shrinath had gone to the canteen. Mr Jagadesh immediately fired Mr Shrinath.

The next morning Mr Prakash met Mr Jagadesh and asked him why he fired an employee without going through the proper procedure. He suggested that Mr Jagadesh reconsider Mr Shrinath's dismissal.

Case Questions

1. Is the action taken by Mr Jagadesh right? Why?
2. What should Mr Jagadesh do? Why?

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