

## Structure of Entrepreneurial Organizations

- Identifying a Genuine Business

Who are my customers?

In what quantities will they buy?

Who are my competitors?

Where are they?

At what price will they buy my product?

How will my product vary from those of my competitors?



## Franchising

### Franchising – Economic Issue

- How franchising could help economic development
- Positive social-economic impacts of franchising
- Franchising – type of vertical cooperation
- Business concept on the basis of cooperation between producers, wholesales and retail

6-4

## Franchising

- Franchise:

– A license to sell another's products or to use another's name in business or both

- Franchiser:

– The company that sells a franchise

- Franchisee:

– The purchaser of a franchise

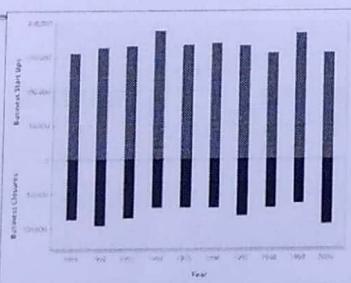
6-2

## Franchising

### Franchising – Legal Issue

- Franchise agreement – the most important document to regulate relationship in franchising network
- First franchise agreements – up to 3 (three) pages
- Today's franchise agreements → more than 50 (fifty) pages
- Franchise agreement – complex agreement (licence, know-how)
- In USA 70's – The Code of Conduct
- UFOC (Uniform franchise offering circular) – general terms

6-5



## Franchising

### Franchising – Franchisor and Franchisee Issue

#### Strategic Decision

- Franchisor: decision to form franchise network, procedures, training, control, copyrights...
- Franchisee: decision to buy a franchise, franchise fee/royalties, level of franchisor control...
- Pros and cons

6-6

## Franchising Advantages and Disadvantages for Franchisor

### **Advantages:**

- ✓ minimum capital
- ✓ potentially high growth rate
- ✓ highly motivated and dedicated local management
- ✓ lower administrative costs
- ✓ continuous protection of trade mark
- ✓ faster establishment of national brand Destroys competition

### **Disadvantages:**

- ✓ risk of independence tendency at franchisee
- ✓ standard control
- ✓ no control over franchisee's employees

6-7

## Franchising Common Terms

- FRANCHISE – from French word *franchir* which means privilege or rights.
- Definition – licence that gives franchisee rights to sell products/services of franchisor using franchisor's trade/service mark and it's business experience. For this rights franchisee is obliged to pay franchise fee/royalties and the franchisor has right to control the use of given rights.

6-10

## Franchising Advantages and Disadvantages for Franchisee

### **Advantages:**

- ✓ lack of knowledge compensated with training
- ✓ legally independent company
- ✓ lower risk of failure (comparing to starting own business)
- ✓ less starting capital
- ✓ use of brand name
- ✓ standard products and quality
- ✓ ongoing professional help
- ✓ group purchasing discounts

### **Disadvantages:**

- ✓ not completely independent
- ✓ constant compliance with the agreement and standards
- ✓ ongoing financial obligations (royalties, advertising fees)

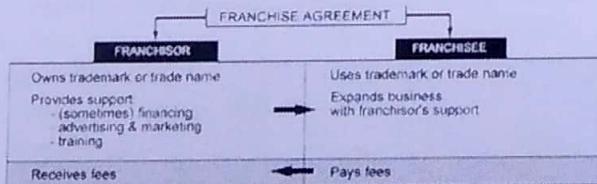
6-8

## Franchising Types of Franchising

1. Product distribution franchising
2. Business format franchising

6-11

## Franchising Common Terms



6-9

## Franchising Product Distribution Franchises

- Isaac Singer & Singer Sewing Machine Company – second half of XIX century
- Dealership network
- Local businessman - exclusive rights to sell sewing machine
- First franchise agreement
- Coca-Cola, General Motors, Ford Motors...

6-12

Franchising  
Product Distribution Franchises

- Franchising of "first generation"
  - Franchisee sells product using producer's trade or service mark
  - Soft drink distributors, automobile dealers and gas stations
  - 1/3\* of US retail through franchise units in India pattern slow

6-13

Franchising  
Business Format Franchises

- Most common type of franchise
  - Franchisee sells products/services of franchisor using its trade/service mark and business concept
  - "Copy" capable concept
  - Service sector – fast food restaurants, business services, maintenance, hotels, tourism, real estate...

6-14

## Franchising it and Multi-unit Franchise

#### Two other types of franchises

- Two other types of franchises
  - International franchising
  - Single-unit franchise – the franchisor grants a franchisee the rights to open and operate one franchise unit
  - Multi-unit franchise
    - a) area development franchising
    - b) master franchising

6-16

## Top Ten Franchises

Rank	Franchise Name	Description	Start-Up Costs (thousands of dollars)
1	Subway	Submarine sandwiches and salads	70-220
2	The Quizno's Franchise Co.	Submarine sandwiches, soups, and salads	71.7-251.1
3	Curves	Women's fitness and weight-loss centers	36.4-53.5
4	The UPS Store	Postal business- and communications services	138.7-245.5
5	Jackson Hewitt Tax Service	Tax preparation services	49.8-94
6	Dunkin' Donuts	Donuts & baked goods	179K-1.8M
7	Jani-King	Commercial cleaning	113-341+
8	RE/MAX Int'l Inc.	Real estate	20-200
9	7-Eleven Inc.	Convenience stores	Varies
10	Liberity Tax Service	Income-tax preparation services	42.3-52.4

6-17

## Franchising

- Direct Franchising—VLCC, Lakme
  - Area Development Franchising—Maui Taco, Salad Creation
  - Master Franchising—McDonald, KFCs
  - Sub Franchising—Jumbo King, Gold's Gym

### Attractiveness

- Resource for operation
  - Profitability
  - Control
  - Ease of Contracting

6-15

## Fastest Growing and Hottest New Franchises

6-18

## Advantages of Franchises

- Economies of Scale
- Management training and support
- Brand-name appeal
- Standardized quality of goods and services
- National advertising programs
- Financial assistance
- Proven products and business formats
- Centralized buying power
- Site selection and territorial protection
- Greater chance for success

6-19

## Disadvantages of Franchises

- Franchise fees and profit sharing with the franchiser
- Strict adherence to standardized operations
- Restrictions on purchasing
- Limited product line
- Possible market saturation
- Less freedom in business decisions

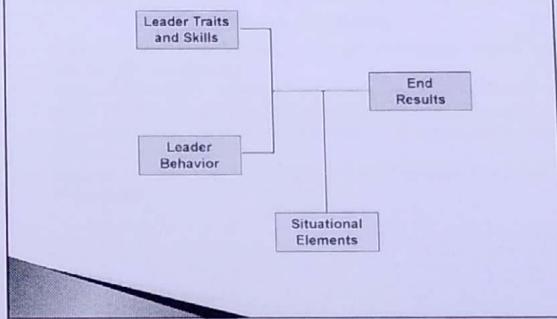
6-20

## Entrepreneurship Management in MSMEs & Leadership

Manager Vs Leader	
Managers' Characteristics	Leaders' Characteristics
Administers	Innovates
A copy	An original
Maintains	Develops
Focuses on systems and structures	Focuses on people
Relies on control	Inspires trust
Short range view	Long range perspective
Asks how and when	Asks what and why
Eye on bottom line	Eye on horizon
Imitates	Originates
Accepts the status quo	Challenges the status quo
Classic good soldiers	Own person

**The function of leadership is to produce more leaders, not more followers**

### Overview of Leadership



**Management is doing things right;  
leadership is doing the right things...**

**Peter Drucker**

### Leadership "Styles"

- Autocratic -- "dictator"
- Democratic -- "boss"
- Laissez Faire -- "guidance"
- Paternalistic -- "father figure"

## Types of Leadership Style

### 1. Autocratic

- Leader makes decisions without reference to anyone else
- High degree of dependency on the leader
- Can create de-motivation and alienation of staff
- May be valuable in some types of business where decisions need to be made quickly and decisively

## Types of Leadership Style

### 2. Democratic

- Encourages decision making from different perspectives – leadership may be emphasised throughout the organisation
  - Consultative: process of consultation before decisions are taken
  - Persuasive: Leader takes decision and seeks to persuade others that the decision is correct
  - May help motivation and involvement
  - Workers feel ownership of the firm and its ideas
  - Improves the sharing of ideas and experiences within the business
  - Can delay decision making

## Types of Leadership Style

### 3. Laissez-Faire

- 'Let it be' – the leadership responsibilities are shared by all
- Can be very useful in businesses where creative ideas are important
- Can be highly motivational, as people have control over their working life
- Can make coordination and decision making time-consuming and lacking in overall direction
- Relies on good team work
- Relies on good interpersonal relations

## Types of Leadership Style

### 4. Paternalistic

- Leader acts as a '*father figure*'
- Paternalistic leader makes decision but may consult
- Believes in the need to support staff

## Factors Affecting Style

### Leadership style may be dependent on various factors

- Risk – decision making and change initiatives based on degree of risk involved
- Type of business – creative business or supply driven?
- How important change is – change for change's sake?
- Organisational culture – may be long embedded and difficult to change
- Nature of the task – needing cooperation? Direction? Structure?

## Leadership Styles..

### Directing:

- Close supervision;
- Leaders define role and task;
- Largely one way communication

### Supportive:

- Leader still defines roles and tasks but seeks ideas/suggestions from the followers.
- Decision still with leader.
- More two-way communication

## Leadership Styles..

### Consulting:

- Day-to-day decisions rest with the followers,
- Leader facilitates and takes part in decisions,
- The control is with the follower.

### Delegating:

- Leaders are still involved in decisions and problem-solving,
- The control is with the follower.
- The follower decides when and how the leader will be involved.

## Continue...

### ► Skill 3: Pick the Right Leadership Situation

- Gravitate toward leadership situations that fit your favored leadership style.

### ► Skill 4: Good communication skills

- Listen carefully
- Ask questions and paraphrase to confirm
- Speak slowly and clearly
- Have listeners repeat the understanding of what was said.
- Encourage questions.

## The Five Ps of Leadership

- **P**ay attention to what's important
- **P**raise what you want to continue
- **P**unish what you want to stop
- **P**ay for the results you want
- **P**romote those people who deliver those results

## Continue...

### ► Skill 5: Exercise Better Judgment

- Decisiveness and good judgment ("cognitive ability") are important leadership traits.

### ► Skill 6: Improve Leadership Traits and Skills

- Exhibit self-confidence.
- Display honesty and integrity.
- Increase your knowledge of the business.

## How to Improve Your Leadership Skills in MSMEs

### Skill 1: Think Like a Leader

- Identify what is happening
- Explain why it is happening
- Decide what you are going to do about it.

### Skill 2: Use an Appropriate Leadership Style

- Leaders usually fit their style to the situation.
- Different leadership styles are appropriate to different situations.

## LEADERSHIP ETIQUETTES

- MAKE DECISIONS THAT ENHANCE THE ENTIRE GROUP RATHER THAN YOURSELF
- REALIZE YOU ALSO HAVE A SUPERIOR
- EXAMPLE OF FAIR PLAY, INTEGRITY & DEPENDABILITY
- KNOW THAT POWER IS GIVEN BY THE MEMBERS & CAN BE TAKEN AWAY
- GENUINELY LISTENS TO THE NEEDS, FEEDBACK AND SUGGESTIONS OF MEMBERS, NOT JUST A SELECT FEW
- UNDERSTAND THAT LEADERSHIP IS NOT A GLORY POSITION, BUT A RESPONSIBILITY POSITION
- BE WILLING TO ROLL UP SLEEVES & HELP WHEN THE GOING GETS TOUGH

## LEADERSHIP ETIQUETTES

- THE ENTIRE GROUP, NOT FOR SELF KNOWS THAT WITHOUT THE WORK, SUPPORT & DEDICATION OF ALL MEMBERS, THE ORGANIZATION WILL NOT BE SUCCESSFUL.
- SACRIFICE PERSONAL GLORY & RECOGNITION TO SHARE WITH ALL FOLLOWERS
- WORK FOR THE SUCCESS OF THE ENTIRE GROUP, NOT FOR SELF.

### Five negative leadership traits that prevent individuals from being leaders

- Uninformed about the problem being discussed
- Non-participative
- Rigid in holding on to their ideas
- Authoritarian in bossing others around
- Offensive and abusive in language style

### BRIEF CASE STUDY

## **Micro, Small & Medium Scale Industries in India**

- The development of MSMEs have been one of the major planks of India's economic development strategy since independence.
- Today, SSI sector occupies a place of strategic importance in Indian economic structure due to its considerable contribution in terms of output, exports and employment.
- There were more than **13.9 million** small-scale industry units, accounting for more than **40%** of the gross value of output in the manufacturing sector, about **35%** of the total exports and provided employment to over more than **30 million** persons, which is second only to the agriculture.

- This contribution has emerged despite the sector being exposed to **intensifying competition** in Indian economy, which is in a state of transition since 1991.
- SSI in India has been confronted with growing **competitive environment since 1991** due to liberalisation of investment regimes during the 1990s, favoring foreign direct investment at the international level, particularly in socialistic and developing countries and the formation of World Trade Organization in 1995 forcing its member countries to drastically scale down the **quantitative and non-quantitative restrictions on imports**.

### **The different segments of SSI have been broadly defined as under:**

- *Small Scale Industrial Units*
- *Ancillary Industrial Undertaking*
- *Tiny Enterprises*
- *Women Entrepreneurs' Enterprise*
- *Small Scale Service and Business (Industry related) Enterprises (SSSBEs)*
- *Export Oriented Unit*

### **Definition of Small Scale Sector: A Retrospective View**

- To evolve a framework for the development and support of the **village, tiny and modern small scale** segments of small industrial sector, various policy decisions have been taken by the Government of India.
- These have addressed the basic requirements of units in the sector by providing assistance through various measures such as credit dispensation, technological upgradation, technical training, industrial infrastructural support and entrepreneurship development.
- With a view to ascertain the types of industrial units which require special support, it was considered necessary to develop an appropriate **classificatory definition** for SSI units.

- In India, to begin with the definition combined two aspects i.e. "**investment and employment**", but gradually these aspects became more specific and now **only one aspect, investment in plant and machinery** is emphasized.
- The official definition of SSI was first evolved in **1950** by the **Small Scale Industries Board**, which defined small industry as a unit employing less than **fifty persons**, if using power, and less than **100 persons** without the use of power and with capital assets (**Land, Building, Plant and Machinery etc.**) not exceeding **Rs.5 lakhs**. Further in September 1957, the working definition was modified further to cover those units working on bigger programme on a **multi-shift basis**

- The employment criterion was given up in 1960 and a new concept of ancillary industry was also defined, having investment in capital assets upto **Rs.10 lakhs**. Further in 1966, the original amount invested in plant and machinery was adopted as the sole norm for defining a unit as small or otherwise.
- These definitions of SSIs based on investment have been changing with the passage of time. A new concept of tiny sector, having investment upto **Rs.1 lakh** in plant and machinery and situated in a town or village with population below 50000, was introduced in 1977.
- Under the Industrial Policy Statement of 1980, limit was raised to **Rs.15 lakhs** in case of SSIs and **Rs.20 lakhs** in case of ancillary units and tiny sector limit was raised from **Rs.1 lakh** to **Rs.2 lakhs**. The investment limit was raised to **Rs.60 lakhs** and **Rs.75 lakhs** for SSIs and ancillary units respectively in **April, 1991** in the new industrial policy for small scale sector. Further tiny sector includes units having an investment limit of less than **Rs.5 lakhs**.

- The investment limit for small scale and ancillary unit was raised to **Rs.3 crores in February, 1997** in pursuance of the recommendations of the **Abid Hussain Committee Report**. The investment limit for tiny sector has also been hiked to Rs.25 lakhs.
- According to the Government, the hike in investment limit has been made to offset the fall in value of rupee caused by inflation and devaluation. With the increased limits, small scale can expand, diversify, modernize and graduate into viable and profitable large-sized units.
- Further, in National Development Council meeting on 19th February, 1999, Government of India has reduced the investment limit for SSIs and ancillary units down to Rs.1 crore.

**Investment Ceiling in Plant and Machinery in SSIs**  
(Rs. in lakh)

Year	SSI Units		Ancillary units	
	Nominal	Real	Nominal	Real
1966-67	7.5	9.5	10	12.6
1975-76	10	5.8	15	8.7
1980-81	20	8.5	25	10.5
1985-86	35	10.6	45	13.4
1991-92	60	11.8	75	14.8
1997-98	300	31.7	300	31.7
1999-00	100	10.2	100	10.2

- The table shows that for the subsequent years from 1991 to 1996 it **did not show any significant improvement in real terms till the increase in ceiling in 1997**. With the reduction in investment ceiling in 1999, the limit in real terms has been close to the 1970-71 level. Further, for the first part of the seventies and the early eighties, the upper threshold investment ceiling in plant and machinery in real terms for both SSI and ancillary units was below the 1970-71 level.

Scope of Small Industry in Selected Countries		
Country	Terminology	Scope
Japan	<i>Small Enterprise</i>	manufacturing, mining, services Trading (Wholesale and Retail)
India	<i>Small Scale Industry</i>	Manufacturing, Maintenance, and Services (limited)
Korea	<i>Small Enterprise</i>	Repair Manufacturing, Mining, Construction, Commerce
USA/ Canada	<i>Small Industry</i>	Manufacturing, Commerce (both retail and wholesale), construction, mining, Transport
Indonesia	<i>Small Industry</i>	Manufacturing, Services

- With the enactment of **Micro, Small and Medium Enterprises Development (MSMED) Act**, in June 2006 by Government of India (GoI), the importance of service enterprises and the need for migration of small enterprises to medium enterprises has been clearly brought out (MSME, 2006).
- The act has brought a paradigm shift in the treatment towards small enterprises by bringing more service sector units under the definition of MSMEs and aligning the definition of small enterprises with the internationally accepted definition.
- A shift in the approach towards the sector was also seen as the Small Scale Industries (SSI) is now categorized as Small and Medium Enterprises (SMEs).
- The enterprises are now grouped under two major heads namely manufacturing and service enterprises.

- (a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
- i) A **micro enterprise** is an enterprise where investment in plant and machinery [original cost excluding land and building and the items as specified] does not exceed Rs. 25 lakh;
- ii) A **small enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items as specified) is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
- iii) A **medium enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items as specified) is more than Rs. 5 crore but does not exceed Rs. 10 crore.

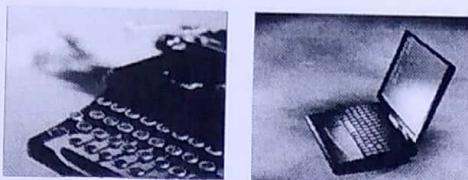
- (b) Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006).
- i) A **micro enterprise** is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
- (ii) A **small enterprise** is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and
- (iii) A **medium enterprise** is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

#### Role and performance of Small Scale Industries in India

- Expansion of SSI Sector
- Employment Generation
- Efficiency of SSIs
- Equitable Distribution of Income
- Mob. of Capital & Entrepreneurial Skills
- Check on Regional disparities
- Less Industrial Disputes
- Exports

**Creativity & Innovation**

Creativity & Innovation



Creativity in Entrepreneurship

**Foreword**

- Education provides the foundation for creativity, flexibility, and wealth creation in the society.
- Motivation
  - Relating the different topics covered during this course
  - Application of the knowledge gained in class
- Beliefs
  - Role of system is as vital as the individual in bringing about the successful implementation of an innovative design or idea
  - Creativity can be developed, sharpened, amplified, because it is a factor of nurture as well as nature

**Overview**

- Discussion of the various definitions of creativity and its relevance to entrepreneurship
- The role of educational institutions in the success of entrepreneurial culture
- Current endeavors taken in the developing countries to encourage entrepreneurial skills
- Suggestions to encourage creativity in Entrepreneurship development programs, based on the learning of this class

**What is creativity?**

- Creative behaviors possessing an element of newness, novelty, and difference (Herrmann, 1996)
- Creativity is an act, an idea, or product that changes an existing domain, or that transforms an existing domain into a new one, and creative person is whose thoughts or actions bring these changes.

**What is creativity?**

- Wallas' description of creative thinking, suggests a model in four stages:
  - Preparation: problem definition
  - Incubation: resting phase, subconscious mind
  - Illumination: idea of a solution comes to mind
  - Verification: solutions are tested
- Koestler's premise on the creative process is "bisociation."

## Creativity and Innovation

- *Creativity leads to innovation*
- *"Innovation is the specific instrument of entrepreneurship. The act endows resources with a new capacity to create wealth. Innovation, indeed, creates a resource." (Drucker)*
- *Entrepreneurship is all about innovation*
- *Innovation is economic or social, rather than a technical term*

## Entrepreneurship and Creativity

- *Creative in figuring out a way to work in a joint venture*
- *Creativity comes in writing an amazing sales letter or visualizing the perfect logo*
- *For practicing innovation, they need to be aware of change, and creatively use it to their advantage*
  - *The Unexpected, Incongruities, Process Need, Industry and Market Structures, Demographics, Changes in Perception, New Knowledge (Drucker)*

## Entrepreneurship and Creativity

- *Tolerance for ambiguity is related to certain entrepreneurial styles*
- *"Creative destruction"*
  - *procedures and destroys or reallocates amassed resources*
- *Creative in identifying the gap in the market and think up a product*

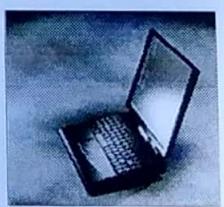
## Role of Educational Institutions

- *Until 1970, very few universities offered entrepreneurship courses*
- *1980s, entrepreneurship emerges as an important element in the dynamics of modern economics*

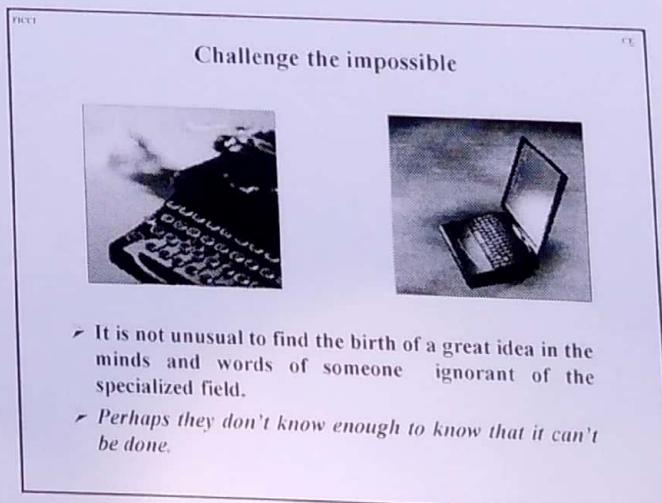
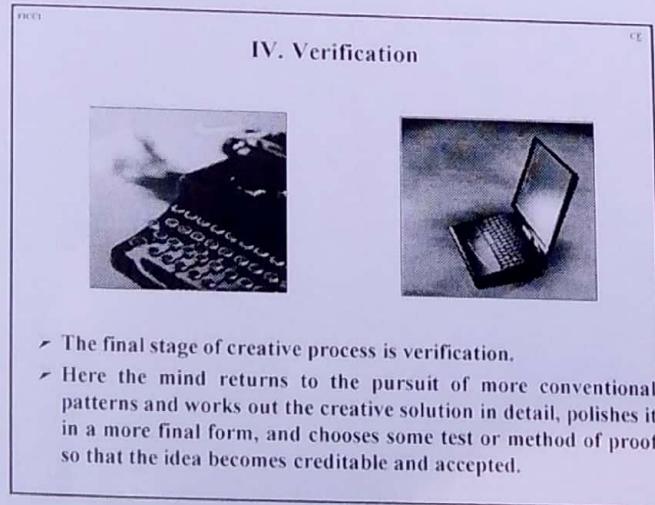
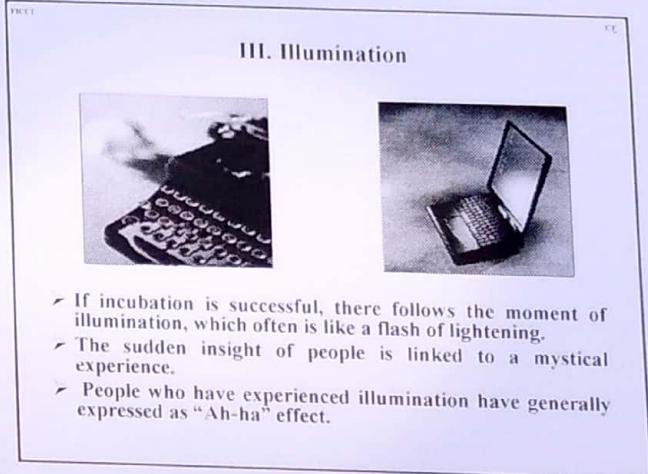
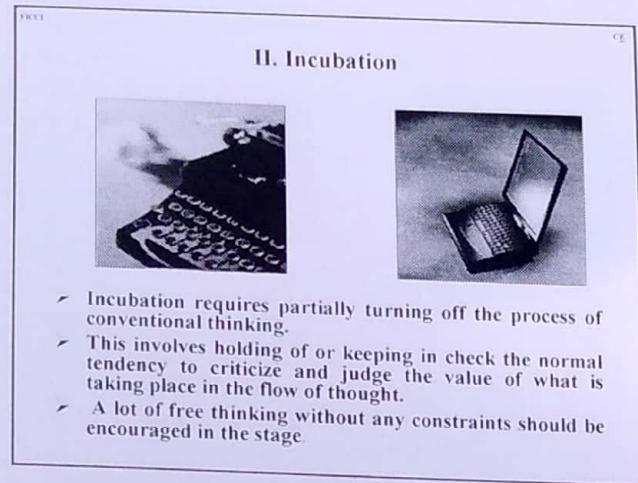
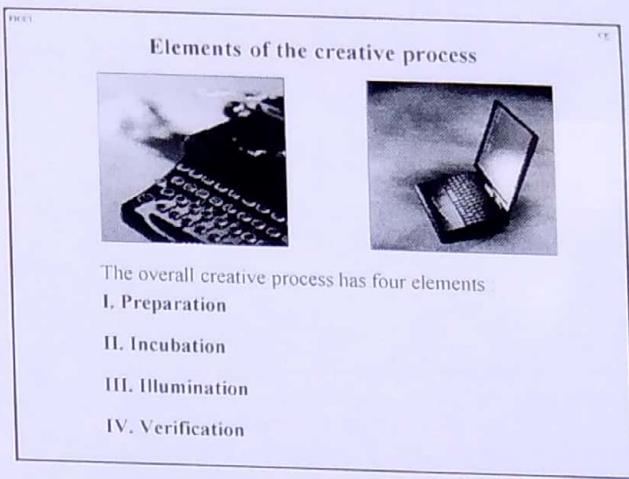
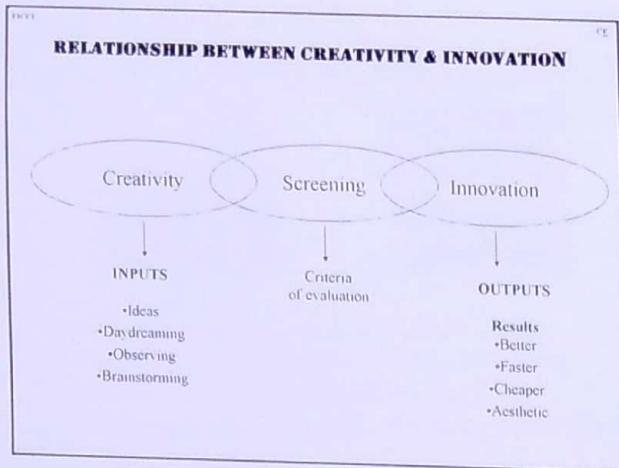
## Nurturing Creativity

- *Several techniques to encourage creative thinking*
  - *Ask Questions, Lateral Thinking, Six Thinking Hats, Brainstorming, etc*
- *Technology and business incubators*
  - *"complete innovation system"*
  - *Provide financial, marketing and design support*
  - *Generation of new creative ideas and business plans*
  - *joint and cross-disciplinary learning*

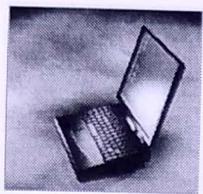
## Creativity & Innovation



1. Creativity is the ability to produce new and original ideas and things. Innovation makes the idea practical and usable.
2. The innovative activity in any business enterprise depends upon the creative contributions of its members.
3. It also depends upon how the organization taps the creativity of its talented members.

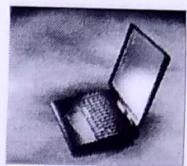


You don't have to be an expert.



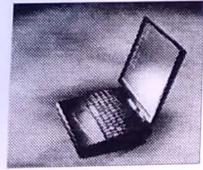
- The bell was invented by an astronomer - **Edmund Halley**
- The pneumatic tyre was invented by veterinarian - **John Dunlop**
- The safety razor was invented by a sales man - **K.C. Gillette**
- The vacuum cleaner was invented by a bridge builder - **Hubert Booth**.

Characteristics of creative people.

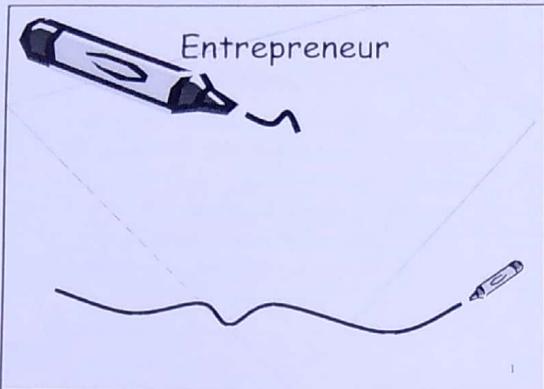


- Optimistic about future
- Open to alternatives
- Day dreamers
- Highly curious and observant
- Independent thinkers
- Good at turning innovative ideas into practical solutions
- Take action and make things happen
- Adventurous with multiple interests

Barriers to creativity



- Be as practical as you can
- Follow all the rules
- That is not logical
- I am not paid to think
- Someone else may already be doing it
- To make a mistake is wrong
- If I share my ideas someone else may steal



**1. Creativity & Innovations:- Vision**  
Schumpeter's Views:

- a) New product
- b) Raw material
- c) New Market
- d) Source of raw material
- e) New form of industrial organisation

**2.**

**2. Economic Organization:-** An organization whose purpose is to allocate resources ,includes:

- a) A new business unit within a firm
- b) Network of independent organisation
- c) Not-for-Profit organisation

**3.**

**3. Risk & Uncertainty**

- Risk—Variability of outcomes
- Uncertainty—Confidence entrepreneur, have their est. that hope the world works, their understanding of cause and effect in the business environment

New Encl. Brit.- An individual who bears the risk of operating a business in the face of uncertainty about the future condition

**4.**

- Drucker's View:- Systematic Innovation
- Schumpeter's View

**Entrepreneurial Behavior:-**

- I) Grasping Opportunity
- ii) Taking initiative
- iii) Managing & taking Responsibility
- iv) Network
- V) Calculated risk
- Vi) Creatively solving problem

**5.**

**ITS NOT ALL THAT ROSY**

- The risks are many and it's not for the faint-hearted.
- When you pump your own money into a new business, the risk of losing all your savings is very, very real.
- Before you take the plunge with an overdose of optimism, be sure you don't fall for any of these myths.

**6.**

## Myths

1. 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



2. My best friend will be a great business partner
  - You may agree on most issues but misunderstandings can erupt over insignificant aspects

3. Having no boss is great fun
  - Customers can make or break you, their wish often ends up being your command.



4. I can make lots of money

*Sumit Roy, a training consultant, "For the first three months I gave up my car and traveled by bus.*

5. I'll definitely be a success

*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.*



6. 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.*



7. Entrepreneurs are born not made

*Reorganization of Entrepreneurship as a discipline to dispel this myth.*



## GETTING OF THE GROUND

Here are just a few necessities you should think about now

- i) **A great idea** :Do you have something that customers are willing to pay for?
- ii) **A smart strategy** : You should be aware of your competitor's strong points and his weaknesses. And how you are going to combat them or capitalize on them.



iii) **Your family's Approval**: If your spouse parents aren't backing you up, think again.

iv) **A business plan**: Ketan Kapadia, managing director of Diaura, started his jewellery company in December 1996 with his partner Ashok Jain, he did not need outside funds. Yet, they drew up a business plan.

"The goal is fixed but direction is needed to get there. A business plan helps keep you on the right track," explains Kapadia.



vi) **Good people**: Good manpower is a big problem," says Ranjan Biswas, director of Trail Blazers, a travel outfit that specializes in adventure tourism.



v) **Be on the right side of the law**: Get yourself an accountant to maintain your records

vi) **A reasonable price**: If you price your product too low, people may question its quality. If it is too high, they may think they can't afford such high quality.

Fix a price that makes economic sense



### Narayana Murthy and Infosys

- Narayana Murthy set up India's leading software company - Infosys
- Murthy turned a small software development venture that he had set up with his friends in 1981, into one of the leading companies of the country
- Infosys grew rapidly throughout the 1990s
- He distributed the company's profits among the employees through a stock option programme and adopted the best corporate governance practices
- In 1999 the company became the first Indian firm to be listed on NASDAQ Stock Market
- By 2000, Infosys was poised to become a true global company



### The Ramoji Group

- The group from Andhra Pradesh became a Rs 15 billion empire under the entrepreneurship of Ramoji Rao
- Ramoji Rao's strategies to expand into the media (print & broadcast), entertainment, foods, films and other industries claimed him growth and reputation

The group is successful as it derived synergies from all its varied businesses



### Ekta Kapoor: The Queen of Indian Soaps

- The driving force behind Balaji Telefilms Limited explored the way in which she made BTL one of the most powerful and successful companies in the field of television



### Lijjat Papad: Women & Entrepreneurship

- Sri Mahila Griha Udyog Lijjat Papad (SMGULP) is the successful entrepreneurial venture set up by seven semi-literate women from a small community in rural India
- In four decades it became worth Rs. 3 billion



### Dhirubhai Ambani and Reliance

- Dhirubhai started his early career at Aden
- Reliance group was started in the days of 'licence raj'
- He grabbed every opportunity that came his way and built Reliance to a Rs. 620 billion company till the time of his death
- His entrepreneurial abilities and leadership skills helped him develop the potential to turn ideas into reality



### Mumbai's Dabhwalas'

- The Dabhwalas who provide a lunch delivery service in Mumbai have been in the business for over 100 years
- In 1998, Forbes Global magazine conducted an analysis and gave them a Six sigma rating of efficiency
- Their delivery process, coding system and ability to work as a team has helped them to achieve a common goal



### Self Employed Women's Association: Empowering Women in India

- SEWA works for betterment of the women in the unorganized sector
- The activities include banking, child care, healthcare, housing, legal aid etc



### Biocon: Kiran Mazumdar Shaw's Entrepreneurial Dream

- Biocon India is the number one biotech company in Asia in terms of revenues and market capitalization
- The woman behind Biocon- Kiran Mazumdar Shaw - is now the richest woman in India
- Kiran recognized the future potential of biotechnology industry when not many people in India knew about it
- The entrepreneurial and leadership skills of Kiran helped her meet the challenges in terms of gathering resources when she launched her biotech start up



### Kerry Packer: Australia's Richest Media Baron

- Known for his deal making abilities, Packer rose to become one of the most dominant figures in the global media industry
- He transformed the broadcasting and television industry in Australia



## **Problem of Industrial Sickness in SMEs**

- Industrialisation is one of the accepted strategies of economic development.
- Developed countries pursue industrialization to achieve higher growth, while developing countries do so for higher rate of growth and attainment of self-reliance.
- In developing countries like India, great stress is laid on SMEs to increase employment opportunities for the ever growing labour force and to attain balanced regional development.

## **Process of Sickness**

'It never occurs all of a sudden'.

- i) **Normal units**:- Functional areas are normal and efficient
- ii) **Tending towards**:-Initial aberration in some functional areas. profits decline last year.
- iii) **Incipient Sickness**:-Deterioration persists, cash losses, current ratio falls
- iv) **Sickness**:-Deterioration anticipated in debt-equity ratio Functional areas inefficient.

### **1. Healthy unit:** Cash Profit+

- Net working capital+
- Net worth+

### **2. Tending towards sickness**:-Cash Profit-

- Net working capital+
- Net worth+

### **3. Incipient Sickness**:-

- 02 or More-

### **4. Sick Unit**:- All are -

## **Signals of Sickness**

- Inventories in excess
- Frequent turnover of personnel
- Irregularities in maintaining bank accounts
- Delay or default in payments
- Decline in capital utilization
- Shortage of liquid funds

## **Symptoms of Industrial Sickness**

- Persistence of various signals over a period of time becomes symptoms of sickness
- Reflects on plant performance, cap. utilization., financial ratios, share market prices etc.

- Persisting shortage of funds
- Delay in audit of financial accounts
- Morale degradation
- Continuous decline in prices of shares

### Magnitude of Industrial Sickness

- Sickness growth is more than SSI Units growth
- Viable units are less(8.4% of total)
- 92% of total sick units but Amt. outstanding is app.15% of total.

### Causes of Sickness

- External Causes:-
  - i) Recessionary trends.
  - ii) shortage of financial funds.
  - iii) Changes in Government policies
  - iv) Natural calamities
  - v) lack of input & raw material
  - vi) Industrial strikes etc.

#### Internal Sickness:-

- i) Marketing Problems
- ii) Poor implementation
- iii) Technical/operational problems
- iv) Worse management
- v) No-availability of raw material

### Consequences

- Loss of employment
- Wastage of valuable resources
- Loss of government revenue
- NPAs to financial units
- Discourage prospective investors and promoters
- More control of MNCs
- Macro level depression

- In the process of rapid industrial development, only *those units are expected to survive that are profitable, efficient and dynamic*.
- The *inefficient and un-viable* ones are more likely to be eliminated in the wake of competition.
- In a free market economy, this natural principle of '**selectivity**' or '**survival of the fittest**' must be viewed to a certain extent as a positive rather than a retrograde phenomenon.

- A high incidence of sickness in the industrial sector in a developing country like India, where industrialisation is encouraged by the government, cannot be ignored
- As sizeable institutional as well as entrepreneurial resources are *locked up* resulting in wastage of capital assets, loss of production and increased unemployment.

- In India, the growing magnitude of industrial sickness is considered to be one of the influencing impediments in the rapid growth of industries in the country as this has created a situation of **sine-die closure** of a large number of industrial units driving a substantial amount of bank credit at stake.
- The incidence of industrial sickness is being nourished in India during last some years.
- Not only some of the old and traditional industries like sugar, jute and cotton have been plunged into its grip, but also even other relatively new and important industries like engineering, cement, chemicals and rubber have been affected badly.

## Process of Sickness

*'It never occurs all of a sudden'.*

- i) **Normal units**:- Functional areas are normal and efficient
- ii) **Tending towards**:-Initial aberration in some functional areas. profits decline last year.
- iii) **Incipient Sickness**:-Deterioration persists, cash losses, current ratio falls
- iv) **Sickness**:-Deterioration anticipated in debt-equity ratio Functional areas inefficient.

### 1. **Healthy unit**: Cash Profit+

- Net working capital+
- Net worth+

### 2. **Tending towards sickness**:-Cash Profit-

- Net working capital+
- Net worth+

### 3. **Incipient Sickness**:-

- 02 or More-

### 4. **Sick Unit**:- All are -

## Signals of Sickness

- Inventories in excess
- Frequent turnover of personnel
- Irregularities in maintaining bank accounts
- Delay or default in payments
- Decline in capital utilization
- Shortage of liquid funds

## Symptoms of Industrial Sickness

- Persistence of various signals over a period of time becomes symptoms of sickness
- Reflects on plant performance, cap. utilization., financial ratios, share market prices etc.

- Persisting shortage of funds
- Delay in audit of financial accounts
- Morale degradation
- Continuous decline in prices of shares

### Magnitude of Industrial Sickness

- Sickness growth is more than SSI Units growth
- Viable units are less(8.4% of total)
- 92% of total sick units are SSIs
- But Amt. outstanding is apprx 15% of total

### Causes of Sickness

- External Causes:-
- i) Recessionary trends.
- ii) shortage of financial funds.
- iii) Changes in Government policies
- iv) Natural calamities
- v) lack of input & raw material
- vi) Industrial strikes etc.

#### Internal Sickness:-

- i) Marketing Problems
- ii) Poor implementation
- iii) Technical/operational problems
- iv) Worse management
- v) No-availability of raw material

### Consequences

- Loss of employment
- Wastage of valuable resources
- Loss of government revenue
- NPAs to financial units
- Discourage prospective investors and promoters
- More control of MNCs
- Macro level depression