

# Directorate of Distance Education

UNIVERSITY OF JAMMU

JAMMU



**SELF LEARNING MATERIAL**

**FOR**

**B.COM SEMESTER - III**

**COURSE NO : BCG-304**

**UNIT : I-IV**

**SUBJECT : Entrepreneurship for Small Business**

**Lesson No. : 1 to 12**

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## B.COM THIRD SEMESTER

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**UNIVERSITY OF JAMMU**

**B.COM. THIRD SEMESTER**

**ENTREPRENEURSHIP FOR SMALL BUSINESS**

<b>C.No. BCG-304</b>	<b>Max Marks</b>	<b>= 100</b>
	<b>Internal assessment</b>	<b>= 20</b>
	<b>External exam.</b>	<b>= 80</b>

**OBJECTIVES:** To provide exposure to the students regarding entrepreneurial culture so that they can set and manage their own small units.

**UNIT – I: INTRODUCTION TO ENTREPRENEURSHIP**

Entrepreneurship-Meaning, concept, characteristics of an entrepreneur, functions; Factors responsible for emergence of entrepreneurship; Relevance of entrepreneurship in career growth;

Opportunities analysis – Project identification and selection; Preparation of project report; Methods of project appraisal;

**UNIT – II: ENTREPRENEURIAL BEHAVIOUR AND MOTIVATION**

Entrepreneurial behaviour- Definition, characteristics; Reasons for promoting entrepreneurs; Difference between entrepreneur and intrapreneurs; Psycho- theories (Maslow and McClland – Achievement motivation).

Women entrepreneurs – Scope of entrepreneurship among women, institutional support to women entrepreneurs, problems of women entrepreneurs.

### **UNIT III: ENTREPRENEURIAL DEVELOPMENT PROGRAMME (EDPs)**

Definition and objective of EDPs, features of a sound EDP; Obstacles in the smooth conduct of EDPs and suggestions to make them successful; Role of state in fostering entrepreneurial development; Role of NSIC, SSIC & DICs in Entrepreneurship development.

### **UNIT – IV: ENTREPRENEURSHIP AND SMALL SCALE INDUSTRIES**

SSIs – Conceptual frame work, definition of SSI undertaking, SSI policy statement - 1991; Latest policy measures of the Govt. of India for SSI sector; Challenges before small scale industries in the era of globalisation ; Small business as a seed bed of entrepreneurship. Export potential of small units; TQM in SSIs – Concept, process; Brief introduction to International Standard Organisation (ISO)

### **BOOKS RECOMMENDED**

1. Agarwal ,Punam and S. Kaur, Amandeep : Entrepreneurship and Small Business, Pub.Vikas & Co. New Delhi.
2. Desai ,Vasant : Dynamics of Entrepreneurial Development and Management, Himalaya Publishing House, Mumbai.
3. Gupta,C.B. : Entrepreneurial Development in India, Sultan Chand Publishers, New Delhi
4. Gupta,C.B. & Khanka, S.S. : Entrepreneurship and Small Business Management, Sultan Chand Publishers, New Delhi

5. Sontaki, V.C. : Project Management, Himalaya Publication, New Delhi.
6. Swami, Gupta & Varshna : Economic and Business Environment, R.B.D, Publication, Jaipur
7. Chopra & Tiwari: : Principles of Business Management and Entrepreneurship, Sun Publication, New Delhi.
8. Sudha, G.S. : Fundamentals of Entrepreneurship; Ramesh Publication, Jaipur
9. Tandon, B.C : Environment and Entrepreneur, Chug Publication, Allahabad.
10. Holt: : Entrepreneurship – New Venture Creation, Prentice Hall of India, New Delhi.
11. Padey, I.M: : Venture Capital – The Indian Experience, Prentice Hall of India, New Delhi.
12. Chandra, Prasanna: : Project Preparation, Appraisal & Implementation, Tata McGraw Hill, New Delhi.
- 13 Saini, J.S. & Dhameja, S.K. : Entrepreneurship and Small Business. International Publications (P) Ltd.

## **NOTE FOR PAPER SETTER**

Equal weightage shall be given to all the units of the syllabus. The external Paper shall be of the two sections viz, A & B of three hours duration.

**Section-A:** This section shall contain four short answer questions selecting one from each unit. Each question shall carry 5 marks .A candidate shall be required to attempt all the four questions. Total weightage to this section shall be of 20 marks.

**Section-B:** This section shall contain eight long answer questions of 15 marks each. Two questions with internal choice shall be set from each unit. A candidate shall have to attempt any four questions selecting one from each unit. Total weightage to this section shall be of 60 marks.

## MODEL QUESTION PAPER

### ENTREPRENEURSHIP FOR SMALL BUSINESS

**Max Marks: -80**

**Time allowed: -3 hrs**

#### **Section- A (Marks 20)**

**Attempt all the four questions. Each question carries five marks.**

1. State the factors for the emergence of an entrepreneur?
2. Define the term external environment?
3. Define the term entrepreneurial competency?
4. What is ISO 9000?

#### **Section- B ( Marks 60)**

**Attempt any four questions selecting one question from each unit. Each question carries 15 marks.**

1. Discuss the obstacles in the growth of entrepreneurship in India?

Or

Define entrepreneurship. Discuss functions of an entrepreneur.

2. Discuss the recent trends in the development of women entrepreneurship in India?

Or

Write a note on the prominent central agencies that provide institutional support to women entrepreneurs?

3. Outline the role of state in fostering entrepreneurial development in India?

Or

Enumerate the obstacles encountered in the preparation of entrepreneurial development programme?

4. Critically analyse the present policy of the Govt. for the growth of small scale industries?

OR

Differentiate between ISO 9000 and TQM?

### **NOTE FOR INTERNAL ASSESSMENT**

#### **For Regular Students**

20% of the total marks i.e. 20 marks in each course shall be reserved for comprehensive internal assessment which shall be as under: -

- a. 20 marks shall be reserved for only one Internal Assessment Test of one hour duration to be conducted at the end of the semester i.e., after completion of the syllabus.
- b. Minimum 75% attendance shall be required for being eligible to appear in internal assessment test and university examination.

#### **Note for setting of internal assessment question paper.**

Eight (08) short answer questions of 5 marks each based on skill development (guidelines for classroom teaching and internal assessment) shall be asked selecting at least two question from each unit and the student shall have to answer any 4 of them.

**C. No. : BCG-304**

**UNIT I**

**SEMESTER: III**

**LESSON: 1-3**

**INTRODUCTION TO ENTREPRENEUR AND ENTREPRENEURSHIP**

**STRUCTURE**

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Meaning of Entrepreneur
  - 1.3.1 Characteristics of an Entrepreneur
  - 1.3.2 Role of Entrepreneur in Economic Development
  - 1.3.3 Task of an Entrepreneur
  - 1.3.4 Personality Traits of an Entrepreneur
  - 1.3.5 Types of an Entrepreneur
  - 1.3.6 Entrepreneur Vs Professional Manager
- 1.4 Meaning of Entrepreneurship
  - 1.4.1 Factors Responsible of Emergence of Entrepreneurship
  - 1.4.2 Relevance of Entrepreneurship in Career Growth
- 1.5 Entrepreneurship Development in other Countries of the World
- 1.6 Women Entrepreneurs
  - 1.6.1 Characteristics of Women Entrepreneurs
  - 1.6.2 Functions of Women Entrepreneurs

- 1.6.3 Problems faced by Women Entrepreneurs
- 1.6.4 Measures to solve the problem of Women Entrepreneurs
- 1.6.5 Steps Taken by Government to Develop Women Entrepreneurs
- 1.6.6 Success Stories of Women Entrepreneurs
- 1.7 Summary
- 1.8 Glossary
- 1.9 Self Assessment Questions
- 1.10 Lesson End Exercise
- 1.11 Suggested Readings

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## **1.1 INTRODUCTION**

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Rather than working as an employee, an entrepreneur runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.” The entrepreneur is an important input of economic development. He is a catalyst of development whom him we prosper and without him we are poor.

Entrepreneur is regarded as the most critical factor in the economic development of every region of India. The availability of skilled, trained and potential entrepreneur is the precondition of economic development, progress and growth of any region in the country. Entrepreneur is a human being but the entrepreneurship is the ability to use the various factors of production i.e. land, labour, capital, organisation and machinery. The entrepreneurs are considered as co-promoters and risk takers and work for the success of the organisation. The concept of entrepreneur varies from country to country as well as period to period and the level of economic development thoughts and perceptions. A review of research done in different disciplines over the years would improve our understanding of the concept of entrepreneur.

The word ‘entrepreneur’ is derived from the French word ‘enterprendre’. It means “to undertake”, i.e. the person who undertakes the risk of new enterprise. The word

entrepreneur, therefore, first appeared in the French language in the beginning of the sixteenth century. The word was also applied to the leaders of military expedition. But it was Richard Cantillon, an Irishman, living in France who first used the term entrepreneur to refer to economic activities. Around 1700 A.D., this term is used for architects and contractors of public work. Entrepreneurship typically operates within an entrepreneurship ecosystem which often includes government programs and services that promote entrepreneurship and support entrepreneurs and start-ups; non-governmental organizations such as small business associations and organizations that offer advice and mentoring to entrepreneurs (e.g., through entrepreneurship centers or websites); small business advocacy organizations that lobby the government for increased support for entrepreneurship programs and more small business-friendly laws and regulations; entrepreneurship resources and facilities (e.g., business incubators and seed accelerators); entrepreneurship education and training programs offered by schools, colleges and universities; and financing (e.g., bank loans, venture capital financing, angel investing, and government and private foundation grants). The strongest entrepreneurship ecosystems are those found in top entrepreneurship hubs such as Silicon Valley, New York City, Boston, Singapore, and other such locations where there are clusters of leading high-tech firms, top research universities and venture capitalists.

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## **1.2 OBJECTIVES**

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After going through this lesson, you should be able to:

- Define the nature and characteristics of an entrepreneur.
- Differentiate between entrepreneur and professional manager
- Explain the role of women entrepreneurship in male dominant society
- Discuss in detail the relevance of entrepreneurship in career growth

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## **1.3 MEANING OF AN ENTREPRENEUR**

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An entrepreneur has been defined as “a person who starts, organizes and manages any enterprise, especially a business, usually with considerable initiative and risk”. “Rather than working as an employee, an entrepreneur runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The

entrepreneur is commonly seen as a business leader and innovator of new ideas and business processes.” Entrepreneurs tend to be good at perceiving new business opportunities and they often exhibit positive biases in their perception (i.e., a bias towards finding new possibilities and seeing unmet market needs) and a pro-risk-taking attitude that makes them more likely to exploit the opportunity.

An entrepreneur is typically in control of a commercial undertaking, directing the factors of production – the human, financial and material resources – that are required to exploit a business opportunity. They act as the manager and oversee the launch and growth of an enterprise. Entrepreneurship is the process by which an individual (or team) identifies a business opportunity and acquires and deploys the necessary resources required for its exploitation. The exploitation of entrepreneurial opportunities may include actions such as developing a business plan, hiring the human resources, acquiring financial and material resources, providing leadership, and being responsible for the venture’s success or failure. Economist Joseph Schumpeter (1883–1950) stated that the role of the entrepreneur in the economy is “creative destruction” – launching innovations that simultaneously destroy old industries while ushering in new industries and approaches. For Schumpeter, the changes and dynamic disequilibrium brought on by the innovating entrepreneur are the ‘norms’ of a healthy economy.

### **Definitions of Entrepreneur**

According to **Joseph**, “The entrepreneur has a heroic role in the society as well as in the process of economic development and industrialization.”

According to **Alexander**, “The role of entrepreneur is technical innovator and adopter.” The most essential and important condition of entrepreneurship is success. The earlier analysts have emphasized company promotion, risk bearing and management as attributes of an entrepreneur.

According to **Oxford English Dictionary**, “The Director or a manager of a public musical institution, one who gets up entertainment especially musical performance is called an Entrepreneur.”

According to **Richard Contillion**, “An Entrepreneur is a person who buys factor of production at certain prices in order to combine them into a product with a view to selling it at uncertain price in future.”

According to **Knigh**t, “An entrepreneur is the economic functionary who undertakes such responsibility of uncertainty which buys its very nature cannot be insured group of persons who bear uncertainty”.

Thus, the concept of an entrepreneur is intimately associated with the three elements.

- (1) Risk bearing
- (2) Organising
- (3) Innovating.

### **1.3.1 Characteristics of an Entrepreneur**

#### **(1) Calculated Risk-Taker**

A risk situation occurs when one is required to make a choice between two or more alternatives whose potential outcomes are not known and must be subjectively evaluated. A risk situation involves potential gain or loss. The greater the possible loss, the greater is the risk involved. An entrepreneur is a calculated risk - taker. He enjoys the excitement of a challenge but he does not gamble. An entrepreneur avoids low-risk situation because there is a lack of challenge and he avoids high-risk situation because he wants to succeed. He likes achievable challenges.

An entrepreneur likes to take realistic risks because he wants to be successful. He gets greater satisfaction in accomplishing difficult but realistic tasks by applying his own skills. Hence, low-risk situation and high-risk situation both are avoided because these do not satisfy the entrepreneur.

#### **2) Innovator**

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

#### **Innovation may occur in the following forms:**

- (i) The introduction of new goods.
- (ii) The introduction of new methods of production.
- (iii) The opening of a new market.
- (iv) The conquest of a new source of supply of raw-material.

(v) The carrying out of the new form of organisation of any industry.

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

There is a distinction between an entrepreneur and a manager. According to schumpeter, a manager is one who deals with day-to-day affairs of the business whereas an entrepreneur is the owner and makes policies and takes decisions.

Rogers and shoemaker have summarised their findings concerning the attributes of an innovator. The innovator according to them is:

- (i) More educated
- (ii) Higher in social standing
- (iii) Less dogmatic
- (iv) More empathetic
- (v) Better equipped to deal with abstraction
- (vi) More receptive to risk in general
- (vii) Higher in achievement motivation
- (viii) Higher in social participation
- (ix) More cosmopolitan
- (x) More often engaged in inter-personal communication
- (xi) A more active information seeker
- (xii) More knowledgeable about innovations
- (xiii) An opinion leader
- (xiv) More in contact with persons outside the social systems.

**(3) Organiser**

An entrepreneur has to bring together various factors of production, minimise losses and reduce the cost of production. Initially, he may take all the decision but as the enterprise grows, he starts delegating the authority. He produces the best results as an organiser. Not only this, it is the entrepreneur who has to pick or select the right person and opt for the financier. He must be able to inspire loyalty and hard work amongst the workers to

raise productivity and efficiency. In order to expand the business, he must have willingness to delegate authority and trust his sub-ordinates and managers although shaping of long-run policies of the enterprise would remain in his hands.

An enterprising entrepreneur should be energetic, alert to new opportunities and able to adjust the changing conditions. As J.B. Say observes, an entrepreneur must have “Judgment, perseverance, and knowledge of the world as well as business. He is called upon to estimate, with tolerable accuracy the importance of specific product; the probable amount of demand, and the means of its production, at another, buy or order the raw material, collect labourers, find consumers, and give at all times rigid attention to order and economy, in a word, he must possess the art of superintendence and administration.”

#### **(4) Creative**

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

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

#### **5) Achievement Motivated**

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

Achievement motivation is a drive to overcome challenges, to advance and to grow. An entrepreneur is achievement-oriented person, not ‘money hungry’. He works for his desire for challenge, accomplishment and service to others. Achievement refers to the accomplishment of excellent, innovative and risk involving tasks. The organisational goal of an entrepreneur can be boosted by inculcating in him the need for achievement. Galbraith point out that lack of ambition is the cause of backwardness of many countries. Ambition is an under one’s own resourcefulness. It electrifies actions. Spirit of need for achievement,

if inculcated in people, can drive people to specific actions and the nation can adopt the path of development.

**(6) Technically Competent**

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

An entrepreneur who has a high level of administrative, mental ability, communication ability, human relations ability and technical knowledge can be more successful than a person with low level of these abilities. A dynamic entrepreneur must also be interested in changing the pattern of production to suit the requirements.

**(7) Self-Confident**

It is necessary for an entrepreneur to be self-confident. He should have faith in himself, only then he can trust others. In an expanded business, delegation of authority is a must and only a self-confident entrepreneur can delegate his authority. He can seek cooperation of his staff and inculcate a sense of work in them.

**(8) Socially Responsible**

In the context of the universal urge for social change and economic development, the old concept of an entrepreneur seeking certain advantages for himself is no longer acceptable. The changing environment calls for a socially conscious entrepreneur who is not threatened by progress of others. On the contrary, he acts in full awareness of social repercussions of his actions. His entrepreneurial ability may create jobs for others. He may invent new products and new manufacturing methods. He may innovate new ways of doing things. All these have social consequences. An entrepreneur should think of projects of social significance and of importance to others. He should expand his entrepreneurial activities, in order to help in creating conditions for social change and for development of businesses which benefit the society. Such an attitude for others raises the level of entrepreneurship from that of an individual activity to a meaningful social endeavor.

**(9) Optimistic**

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

**(10) Equipped with Capability to Drive**

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

**(11) Blessed with Mental Ability**

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

**(12) Human Relations Ability**

Personality factors such as emotional stability, personal relations, sociability consideration and tactfulness are important contributors to entrepreneur's success. One of the most important facets of human relations ability is one's ability to "put himself in someone else's place" and to know how the other person feels. This is the ability to practice empathy.

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

**(13) Communication Ability**

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

**Robert D. Hisrich** has highlighted the following key characteristics of an entrepreneur.

- (i) Motivator
- (ii) Self-confidence
- (iii) Long-term involvement
- (iv) High energy level
- (v) Persistent problem-solver
- (vi) Initiative
- (vii) Goal setter
- (viii) Moderate risk taker.

**(14) Decision-Making**

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

An entrepreneur might have to take decisions without the assistance of quantitative data or experienced support staff, than he has to be more creative than just a conventional manager. Such problems have to be seen from different angles and answers must be sought in an innovative way. Decision taken must improve the future profitability of the enterprise. Entrepreneurs past experience, intuitive decision-taking ability, rational approach, problem-solving ability, creativity, innovativeness etc. will help take quick and accurate decisions. A rational approach is a logical and sensible way to solve business problems. But decision taken is not enough unless it is implemented. Boldness and enthusiasm are required to implement a decision. Once a decision is implemented, all doubts and uncertainties should be left behind. A positive attitude of the entrepreneur, a sense of security allows him to make key decisions with little fear of the consequences.

Such qualities make him leader and others followers. Ability to deal with ambiguity and uncertainty help the entrepreneur in attaining the goals and aspirations of his organisation.

Here are some tips to become a good decision-maker. (1) Define the problem (2) Collect information and relevant data (3) Begin with a 'brain storming' session and discuss the problem with each other (4) Never criticise or reject any solution suggested during the brain storming session (5) Encourage group members to come up with potential solutions (6) Reduce the number of alternatives to three or four after discussion (7) Consider each alternative extensively and determine the best to meet your needs. (8) Implement decisions. Decision-making is an art; the more one practices it, better expert he/she becomes.

### **(15) Business Planning**

As the saying goes, "A thousand-mile Journey begins with but a simple step". The decision to become an entrepreneur is the first step followed by the choice of the product. As the business venture is undertaken, need for planning arises. It is the rigor and thoroughness of the business plan which could be behind the successful entrepreneur throughout his venture's life.

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

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

Business planning begins the moment you decide to open business, to the moment you open the business, to the years you are actively engaged in business. A business plan, if updated every year goes a long way in serving the entrepreneur throughout venture's life, irrespective of the fact whether he is full-time or part time, traditional or home-based, running a tiny unit or a cottage industry.

The idea of a business plan is not new, what is new is the growing use of such plans by entrepreneurs. It has been a misconception that starting a business calls for little planning.

The fact is that every business needs planning. Most of the entrepreneurs don't prepare formal business plan. They don't plan rigorously or fo it entirely in their heads. This lack of formal planning explains why some entrepreneurs fail.

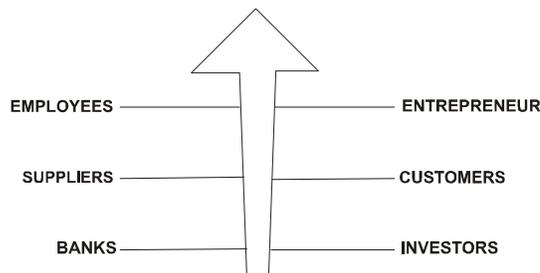


Figure 1: Parties potentially in need of a new venture's business plan.

As the exhibit shows, not only outside pressures, but insiders have an interest in the business plan. These pressures force entrepreneur to develop their businesses on paper before investing time and money. These pressures flow from creditors, investors, shareholders, etc. when the entrepreneur approaches for money. These outside pressures are healthy.

(Entrepreneurs benefit because a business plan makes them better appreciate what it will take to succeed.)

Business plan give better information to the outsiders to decide whether to help finance the entrepreneur. The entrepreneur's employers may also use the business plan as a blue print for harnessing their energies for years to come.

Business planning is imperative if entrepreneur has a vision and needs an idea of where he wants his business to be. Just as one would not think of launching a manned space capsule without a flight plan, so one should not think of launching a new business without a business plan (Format of a business plan has been given in chapter 'Venture capital.) In addition to the characteristics discussed earlier, researchers have found some qualities which contribute to an entrepreneur's success. These qualities happen to be:

- (1) Initiative
- (2) Personality

- (3) Technical competence
- (4) Good Judgment and intelligence
- (5) Leadership
- (6) Courage
- (7) Self-confidence
- (8) Honesty and sincerity
- (9) Compatibility
- (10) Confidence in employees
- (11) Ability to delegate authority
- (12) Ability to criticise and readiness to accept criticism.
- (13) Aggressiveness
- (14) Decision-making ability
- (15) Mental caliber
- (16) Foresightedness
- (17) Imagination
- (18) Perseverance
- (19) Patience
- (20) Sense of Justice
- (21) Resourcefulness
- (22) Scientific mind
- (23) Ingenuity

- (24) Organisational ability
- (25) Politically conservative
- (26) Ability to coordinate activities
- (27) Hopeful
- (28) Skill in inter-personal relations
- (29) Willingness to learn
- (30) Worried
- (31) Self-sacrifice
- (32) Sense of Justice
- (33) Integrity
- (34) Loyalty
- (35) Considerate

### **1.3.2 Role of Entrepreneur in Economic Development**

Entrepreneurship plays a very important role in the economic development. Entrepreneur acts as catalytic agents in the process of industrialisation and economic growth. It is the entrepreneur who organises and puts to use capital, labour and technology in the best possible manner for the setting up his enterprise. The role of entrepreneur in the economic development programme (EDP) is discussed in the following way:

#### **1) Creation of Employment Opportunities**

Unemployment is one of the most important problems confronting developing and under-developed countries, EDPs enable prospective entrepreneur in the setting up of their own units thus enabling them to get self employment with the setting up of more and more units by entrepreneur, both on small and large scale, numerous jobs opportunities are created for others. Thus, entrepreneur can play an effective role in reducing the problem of unemployment.

## **2) Capital Formation**

Entrepreneur as an organiser of factors of production employs his business well as borrowed resources for the setting up of his enterprises. Entrepreneur mobilises idle savings of the public and put them to productive use. In this way he helps in capital formation which is so essential for the industrial and economic development of a country.

## **3) Balanced Regional Development**

Small scale units will be set up in industrially backward and remote areas with limited financial resources successful EDPs assist in accelerating the pace of industrialisation in the backward areas and reduce the concentration of economic power in the hands of a few entrepreneur feel like taking advantage of the various concessions and subsidies offered by the state and central Govt.

## **4) Use of Local Resources**

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

## **5) Improvement In Per Capital Income**

Entrepreneurs are always on the look out for opportunities they explore and exploit the opportunities. Entrepreneur takes lead in organising various factors of production by putting them into productive uses through the setting up of enterprise. EDPS plays a active role in setting up of more units and thus helps in generation of more employment and income.

## **6) Improvement in Standard of Living**

Entrepreneur by adopting latest innovation helps in the production of wide variety of goods and services. By making efficient use of resources they start producing more of better quality and that too at lower costs.

## 7) **Economic Independence**

Entrepreneur enables a country to produce wide variety of better quality goods and services and that too at competitive prices. They develop substitute of goods being imported and thus prevent over dependence on foreign country and at the time help in the saving of precious foreign exchange.

### 1.3.3 **Task/Functions of an Entrepreneur**

There has been a great deal of confusion and contradiction in literature on the functioning of an entrepreneur. Classical economists considered entrepreneur as the owner of business enterprise to which he supplied capital. No distinction was made between an entrepreneur and the capitalist. But in modern approach corporate ownership is separated from control. Ownership of business lies with shareholders who bear risk but they do not exercise much control over the business activities. Control lies with a small group of insiders known as board of directors. The board of directors bears a little risk and receives a larger remuneration even when no dividend could be paid to the shareholders due to insufficiency of profits. Thus, the classical theory of enterprise fails in the modern corporate world.

An entrepreneur has to carry out a combination of functions like risk taking, innovation, motivation, organizing, controlling, etc. in keeping pace with time and environment. The entrepreneur has to react to new ideas, new demands exploit the opportunities and contribute towards technical progress. Thus, he is a nucleus of high growth of the enterprise.

#### **A. Entrepreneurial functions**

**1. Innovation:** J.Schumpeter has made substantial contribution to the literature of entrepreneurship he says that an entrepreneur is basically an innovator and he introduces something new in the economy. Innovation is the basic function of entrepreneur. As an innovator, the entrepreneur has introduced new combinations of means of production, new product, new market for product and new sources of raw material. As an innovator, entrepreneur identifies the potentially profitable opportunity and tries to exploit it. Innovation refers to doing new things. It includes introduction of new products, creation of new markets, application of new process of production, discovery of new and better sources of raw materials and developing a new and better form of industrial organization.

**2. Risk taking.** Risk taking is also the fundamental function of an entrepreneur. Risk taking refers to take responsibility for loss that may occur due to unforeseen contingencies of the future. An entrepreneur reduces uncertainty in his plan of investment, diversification of production and expansion of the enterprise. He is a self confident and highly optimistic person willing to assume the risks involved in innovations, new ventures and expansion of an existing venture.

**3. Organisation building.** Organisation and management of the enterprise is the main function of an entrepreneur. It refers to bring together the various factors of production. The purpose is to allocate the productive resources in order to minimize the losses and reduce costs in production. All the decision relating to enterprise is taken by entrepreneurs. He alone determines the lines of business to expand and capital to employ. Thus, entrepreneur is the final judge in the conduct of his business.

## **B. Promotional functions**

### **1. Conception of an idea:**

The first promotional function of entrepreneur is the conception of a new idea. He visualize that there are opportunities for a particular type of business and it can be profitably run. The idea may be to exploit a new area of natural resources or more profitable ventures in an existing line of business. He develops this idea with the help of technical experts in that field. If they are convinced that profitable avenues are available in that line of business then the idea is taken forward for more exhaustive analysis.

### **2. Detailed investigation:**

The entrepreneur will estimate total demand for the product. There may be certain concerns already in that type of business and so he will determine his share of demand. After determining the prospective demand for goods he will think of arranging finances for the venture. The availability of power, labour, raw materials and machinery is also considered. The cost structure of the product is analyzed to find out profitability from the venture. An expert opinion is sought of the viability of the project. The work of estimation becomes more difficult if the proposed line of business is new. The estimate should be based on proper analysis of different factors. A guess work creates problems later on.

### **3. Assembling the requirements:**

After making sure that the proposition is practical and profitable, the entrepreneur proceeds to assemble the requirements. He persuades some more persons to join hands with him by becoming directors or founder members. If he has invented something new, he should get it registered in his name. He may also acquire some patent rights. The entrepreneur selects the factory site, decides about plant and machinery and contacts suppliers or raw materials, etc. he does not purchase all these because it involves huge sums of money. Instead of going for outright purchase he uses option methods. The contracts are finalized by paying option money and the ultimate purchase is done only when the company is incorporated. If the company fails to come up, the entrepreneur only loses option money.

### **4. Financing the proposition:**

The entrepreneur decides about the capital structure of the enterprise. The requirement of finances is estimated first. Then the sources from which this money will come are determined. How much share capital will be issued, the type of the shares to be issued, and the nature of loans, whether debentures or borrowing from financial institutions for a longer period all are finalized. Generally, commercial banks are helpful only in financing working capital requirements. The financial institution for a longer period. The financial requirements for short period and long period are estimated separately.

## **Managerial functions**

### **1. Planning:**

Planning is a basic managerial function for entrepreneur. Planning helps in determining the course of action to be followed for achieving various entrepreneurial objectives. It is decision in advance, what to do, when to do, how to do and who will do it a particular task. Planning is a process which involves thinking before doing. Planning is concerned with the mental state of entrepreneur. He thinks before undertaking a work. Other managerial functions of entrepreneurs such as organizing, staffing, directing, coordinating and controlling are also undertaken after planning.

**Hart** defines planning as, “the determination in advance of a line of action by which certain results are to be achieved”.

According to **G. R. Terry**, “Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulations of proposed activities believed necessary to achieve desired results”.

Planning is a process of looking ahead. The primary object of planning is to achieve better results. It involves the selection of entrepreneur objectives and developing policies, procedures, budgets and strategies. Planning is a continuous process. A detailed planning is done in the beginning but the actual performance is reviewed and suitable change is made in plans. Plans may be of many kinds, such as short range plans, medium range plan, long, standing plan, single use plan, strategic plan, administrative plan and operational plan.

The process of planning involves a number of steps:

- (i) Gathering information;
- (ii) Laying down objective;
- (iii) Developing planning premises;
- (iv) Examining alternative courses of action;
- (v) Evolution of action pattern;
- (vi) Reviewing limitation;
- (vii) Implementation of plan.

## **2. Organising:**

Every business enterprise needs the service of a number of persons to look after its different aspects. The entrepreneur sets up the objectives or goals to be achieved by its personnel. The energy of every individual is channelised to achieve the enterprise objectives. The function of organizing is to arrange, guide, co-ordinate, direct and control the activities

of other factors of production. viz; man, material, money and machines so as to accomplish the objectives of the enterprise. In the other words **Koontz and O'Donnell**, "Organising is that part of managing that involves establishing and intentional structure of roles for people in an enterprise to fill." Organisation provides the necessary framework within which people associate for the attainment of business objective.

**Louis A. Allen** describes organization as, "the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives". The process of organising involves the following steps:

- (i) to identifying the work to be perform ;
- (ii) to classify or group the work ;
- (iii) to assign these group of activities or work to individuals ;
- (iv) to delegate authority and fix responsibility and
- (v) To co-ordinate these authority- responsibility relation-ships of various activities.

**3. Staffing.** The function involves manning the position created by organization process. It's concerned with human resources of an enterprise.

In the words of KOONTZ AND O' DONNEL, Staffing is filling and keeping filled, position in the organsition structure through defining work- force requirement, appraising, selecting, compensating and training. Every entrepreneur has to perform the staffing function in one form or the other, in order to get things done through others.

**4. Directing.** Directing is concerned with carrying out the desired plans. It initiates organized and planned action and ensures effective performance by subordinate towards the accomplishment of group activities. In the words of **George R. Terry**, 'Direction is moving to action and supplying simulative power to the group.' After planning, organizing and staffing, the entrepreneurship has to guide and supervise his subordinates.

**5. Leadership.** An entrepreneur has to issue orders and instructions and guide and counsel his subordinates in their work with a view to improve their performance and achieve enterprise objective. Leadership is the process by which by which an entrepreneur imaginatively direct/guides and influences the work of other in choosing and attaining specified goals by mediating between the individual and organisation in such a manner that both will get maximum satisfaction.

**6. Communication.** Communication constitutes a very important function of entrepreneur. It is said to be the number one problem of entrepreneur today. It is established fact that entrepreneurs spend 70 to 90 percent of their working time in communicating with others. Communication is the means by which the behaviour of the subordinate is modified and change is effected in their actions.

Communication is a two way process as it involves both information and understanding. It may be written, oral, and gestural. Communication is said to be formal when it follows the formal channels provided in the organisation structure. It is informal communication when it does not follow the formal channels. Communication flows downward from a superior to subordinates and upwards from subordinates to a superior.

**7. Motivation:** The term motivation is derived from the word 'motive' which means a need or an emotion that prompts an individual's into action. Motivation is the psychological process of creating urge among the subordinates to do certain things or behave in the desired manner. It is a very important function of entrepreneur. The importance of motivation can be realised from the fact that performance of a worker depends upon his ability and the motivation.

**8. Supervision:** It is another important managerial function of entrepreneur. After issuing, instructions, the entrepreneur has to see that the given instructions are carried out. This is the main aim of supervision. It refers to the job of overseeing subordinates at work to ensure maximum utilization of resources, to get the required and directed work done and to correct, the subordinates whenever they go wrong.

**9. Co-ordination:** It is one of the most important functions of entrepreneur. It is essential to channelise the activities of various individuals in the organisation for the achievement of common goals. Every department or section is given a target to be achieved

and they should concentrate only a work and should not bother about the work of other organs. It is left to the entrepreneur to see that the work of different segments is going according to pre-determined targets and corrective measures have to be taken if there is any decision. It creates a team spirit and helps in achieving goals through collective efforts.

**10. Controlling:** It can be defined as, “determining what is being accomplished, that is evaluating the performance, if necessary applying corrective measures so that the performance takes place according to plans”.

Control is essential for achieving objectives of an enterprise. The planning of various activities does not ensure automatic implementation of policies. Control is the process which enables entrepreneur to get its policies implemented and take corrective actions if performance is not according to the pre-determined standards. Control is a line function and entrepreneur assesses the performance of their subordinates. The main purpose of control is to see that the activity is achieving the desired results.

#### **D. Commercial functions**

**1. Production:** Production function is a key function of an entrepreneur. The activities of production are independent of the size of the undertaking. In a small concern one person may be undertaking this function whereas in large organisation this activity may be undertaken by various individual or separate teams.

Production is the creation of goods and services. In relation to goods, production is the fabrication of a physical object through the use of men, materials and equipment, whereas, with reference to services, production is the discharge of a function which has some utility. This interpretation of production activity is very broad one and it does not coincide with the commonly used practice of associating it with manufacturing process only. Production function consists of manufacturing, ancillary and advisory activities.

**2. Finance:** Finance function is the most important of all enterprises. It remains a focus of all business activities. It is not possible to substitute or eliminate this function because the enterprise fails in the absence of finance. The need for money is continuous. It starts with the setting up of an enterprise and remains at all times. The development and expansion of enterprise rather needs more commitment for funds. The funds will have to be raised from various sources. The sources will be selected in relation

to the implications attached with them. The success of finance function will depend upon its planning. The receiving of money is not enough, its utilization is more important.

**3. Marketing:** Marketing is primarily concerned with the movement of goods and services from the producer to the ultimate consumer. It creates place, time and possession utilities. Marketing is a concept, a point of view and a way of thinking. It is directed towards the satisfaction of consumer wants. It begins and ends with customers. Marketing plays a significant role in promoting the well - being of all business enterprise. In fact the success of any organisation depends upon its successful marketing. Marketing is necessary not only to a producer of goods and services, but also for a customer, to a government and society at large.

**4. Personnel:** This function is concerned with people at work and with their relationship with in an organisation. It aims to bring together and develop into an effective organisation of men and women who make up enterprise. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a good working force in the organisation. The enterprise should endeavor to make proper utilization of human resources.

**5. Accounting:** Accounting is defined as a systematic, recording of entrepreneurial transactions in order to get a true and fair view of the results of the operations of the enterprise and the financial position of an enterprise. It includes

- i) Keeping up - to - date
- ii) Developing an efficient system of communication.
- iii) Keeping and maintaining record.
- iv) Developing time and labour saving devices in accounting.

#### **1.3.4 Personality Traits of an Entrepreneur**

Whenever we are looking around, we find certain entrepreneurs doing exceedingly well. They are managing their enterprises very well and are out to make them grand success. The various questions that normally arise are—Who are they? What they possess? and

various other questions related with their style of functioning. In their case there is a judicious mixture of knowledge, skill and personality. All these are called entrepreneurial traits or competencies. Knowledge refers to the collection and retention of information about any job or activity. Knowledge forms the basis for any action. Only knowledge cannot ensure success. Success depends upon the ability or skill of using the acquired knowledge for achieving desired results. Skill refers to practical application or use of the knowledge. Thus performance depends upon both knowledge and skill. Motivation is an inner urge in an individual which calls for action. According to **Steneir** “A motive is an inner state that energizes, activates or moves and directs or channels behaviour goals.” It is this inner urge in an individual to achieve his/her goal which David McClelland has termed as ‘Achievement Motivation’. It is this urge to achieve goal which prompts the individual to perform better and better. Thus in order to achieve success in any venture a person must possess a judicious combination of knowledge, skill and motive.

Entrepreneurship Development Institute of India [EDI] conducted a study under the guidance of Professor David C McClelland, a reputed behavioural scientist in three countries namely India, Malawi and Equador. It was found out that possession of certain competencies or traits or abilities result in superior performance. An entrepreneur may possess certain competencies and at the same time it is possible to develop these through training, experience and guidance. Various traits required for superior performance were identified during the study and are as under.

1. **Initiative.** It is an inner urge in an individual to do or initiate something. There is popular saying ‘Well begun is half done’. It is the entrepreneur who takes or initiates the first move towards setting up of an enterprise. Most of the innovators have got this urge to do something different. Entrepreneur basically is an innovator who carries out new combinations to initiate and accelerate the process of economic development.

2. **Looking for Opportunity.** An entrepreneur is always on the lookout of searching for opportunity and is ready to exploit it in the best interests of the organisation.

3. **Persistence.** An entrepreneur is never disheartened by failures. He believes in the Japanese proverb ‘Fall seven times, stand up eight’. He follows Try-Try Again for overcoming the obstacles that come in the way of achieving goals.

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

**5. Quality Consciousness.** Successful entrepreneurs do not believe in moderate or average performance. They set high quality standards for themselves and then put in their best for achieving these standards. They believe in excellence, which is reflected in everything they do.

**6. Commitment to Work.** Successful entrepreneurs are prepared to make all sacrifices for honouring the commitments they have made. Whatever they commit, they take it as a moral binding for honouring their commitments, irrespective of the costs involved.

**7. Commitment to efficiency.** Top performers are always keen to devise new methods aimed at promoting efficiency. They are keen to evolve and try new methods aimed at making working easier, simpler, better and economical.

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

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

**10. Self Confidence.** Top performers are not cowed down by difficulties as they believe in their own abilities and strengths. They have full faith on their knowledge, skill and competence and are not worried about future uncertainties.

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

**12. Persuasive.** A successful entrepreneur through his sound arguments and logical reasoning is in a position to convince others to do the works the way he wants them to do. It is not physical but intellectual force he will use for convincing others.

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

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

**15. Effective Strategist.** A successful entrepreneur possesses the ability to evolve relevant strategy, aimed at safeguarding or promoting organisation's interests. Strategy may be with respect to facing future uncertainties or challenges posed by competitors.

### **1.3.5 Types of an Entrepreneur**

In the initial stages of economic development, entrepreneurs tend to be shy and humble but as the development process picks up speed they tend to become more enthusiastic and confident. They help make the business environment healthy and development oriented. Highly enthusiastic and innovative entrepreneurs exist only in developed countries as level of their economic and technological development has reached a certain level whereas in developing and under-developed countries, imitative entrepreneurs are more successful. However, the various types of entrepreneur are classified as under:

#### **(1) According to the type of business**

**(i) Business entrepreneur:** Business entrepreneurs are those entrepreneurs who conceive the idea of a new product or service and then translate their ideas into reality. Entrepreneur examines the various possibilities of sources of finance, supply of labour, raw-materials or finished product as the case may be.

Business entrepreneur may be undertaking the trading business or manufacturing business but initially the size of the business is very small. As the entrepreneur flourishes, he tends to expand his business.

**(ii) Trading entrepreneur:** As the very name indicates trading entrepreneur is concerned with trading activities and not manufacturing. Trading means buying of finished products from the producer and selling them to the customers directly or through a retailer.

A trading entrepreneur has to be creative enough as he has to identify the market. He has to identify potential market, create demand through extensive advertisement of his product and thus inspire people to buy his product. For this is inevitable for him to find out the desires, tastes and choices of his customer in domestic as well as international market.

**(iii) Industrial entrepreneur:** As the very name indicates, an industrial entrepreneur is one who sets up an industrial unit i.e. large scale, medium scale, small scale and tiny business. He perceives the opportunity to set up his unit, complies with necessary formalities of getting license, power connection, pollution control clearance (if the need be) arrange initial capital, providing securities and guarantees to the financial institutions, making payment of wages and supply necessary technical know-how. An industrial entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. Manufacturer of products, textiles, electronics, food items and the like are industrial entrepreneurs.

**(iv) Corporate entrepreneur:** Corporate entrepreneur is the one who plans, develops and manages a corporate body. He is a promoter, an essential part of board of directors, an owner as well as an entrepreneur. He gets his corporate body registered under the requisite Act which gives his company the status of separate legal entity.

**(v) Agricultural entrepreneur :** Agricultural entrepreneur is the one who is engaged in the agricultural activities like plantation crops, exotic flower production, cash crops, horticultural, floricultur, animal husbandry dairy, poultry etc. He uses latest technology to increase the productivity of agriculture and also adopts mechanisation.

## **(2) According to Motivation**

**(i) Pure entrepreneur:** Pure entrepreneur is one who may or may not possess an aptitude for entrepreneurship but is tempted by the monetary rewards or profits to be earned from the business venture. He is status-conscious and wants recognition.

**(ii) Induced entrepreneur:** Induced entrepreneur is attracted by the various incentives, subsidies and facilities offered by the government. 'An entrepreneur is not born' - this is no doubt true as every person can be trained to become a good entrepreneur. Most of the entrepreneurs who enter into business are induced entrepreneur as various kinds of financial, technical and managerial facilities are provided by the government to promote entrepreneurship. An entrepreneur can develop himself much more by attending EDPs and they can make a stand in the market. Import restrictions, allocation of production quotas to SSIs, reservation of products for small industry etc. have forced many young people to set up a small industry.

Non-Resident Indians (NRIs) and educated unemployed seeking self-employment or newly married bridegrooms by taking financial support of their in-laws may be described as induced entrepreneur. This class of entrepreneur accounts for maximum number of failures because there is no proper screening of misfits.

## **(3) According to the Use of Technology**

**(i) Technical entrepreneur:** The strength of a technical entrepreneur is in his skill in production techniques. He concentrates more on production than on marketing. He possesses craftsman skill in himself which he applies to develop and to improve the technical aspect of the product.

**(ii) Non-technical entrepreneur:** Unlike technical entrepreneur, non-technical entrepreneur is not concerned with the technical aspect of the product rather he spends more time in developing alternatives strategies of the marketing and distribution to promote his business. His target is not to change the production technique but how to increase the demand of the product in which he is dealing.

(iii) **Professional entrepreneur:** Professional entrepreneur means an entrepreneur who is interested in floating a business but does not want to manage or operate it. Once the business is established, he sells it out and catches on to float a new business. Such entrepreneurs are dynamic and keep on identifying innovative ideas and convert into commercially viable projects

#### (4) **According to Stages of Development**

(i) **First generation entrepreneur:** First generation entrepreneur are those entrepreneurs who do not possess any entrepreneurial business background. They start an industrial unit by means of their own innovative skills. They are, infact, self made entrepreneur.

(ii) **Second generation entrepreneur:** Second generation entrepreneur are those entrepreneurs who inherit the family business firms and pass it from one generation to another.

(iii) **Classical entrepreneur:** A classical entrepreneur is a stereotype entrepreneur whose aim is to maximize his economic returns at level consistent with the survival of the unit but with or without an element of growth.

#### (5) **Classification Given by Danhof**

(i) **Innovating entrepreneur:** Innovative entrepreneurs are generally aggressive and possess the art of cleverly putting the attractive possibilities into practice. An innovating entrepreneur is one who introduces new goods, inaugurates new methods of production, discovers new market and re-organises the enterprise. He arranges money, launches an enterprise, assembles the various factors, chooses the competent managers and sets his enterprise go.

Schumpeter's entrepreneur is of this type. His entrepreneur belongs to that nation which has wide industrial base, modern banking facilities, rich infrastructure, up to date technology and the like. Innovative entrepreneurs do not exist in developing economies where lack of capital, technological know-how blocked the path of innovativeness. In developed countries, people are highly developed and consistently look forward for change. They want to consume such products which do not commonly exist in the world. They want

progress as they have achieved huge level of development. Innovating entrepreneur played a key role in the rise of modern capitalism, through their enterprising spirit, hope of making money, and ability to recognise and exploit opportunities.

**(ii) Adoptive or Imitative entrepreneurs:** Imitative entrepreneurs are characterised by readiness to adopt successful innovations inaugurated by successful innovating entrepreneurs. Imitative entrepreneurs do not imitate the changes themselves, they only imitate techniques and technologies innovated by others. Such entrepreneurs are significant for under-developed economies because they put such economies on high rate of economic development. Entrepreneurs prefer to imitate the technology already existing somewhere in the world.

However, the talent of imitative entrepreneurs should not be under-estimated. Even imitative entrepreneurs are revolutionary and agents of change. They have ability to do things which have not been done before even though, unknown to them, the problem may have been solved in the same way by others.

Innovative entrepreneur is creative, while imitative entrepreneur is adoptive.

**(iii) Fabian entrepreneur:** Fabian entrepreneurs are cautious and skeptical in experimenting change in their enterprises. Such entrepreneurs are shy, lazy and lethargic. They are imitative by nature but are not determined and also lack power. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of relative position of the enterprise.

**(iv) Drone entrepreneur:** Drone entrepreneurs are characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns. They can suffer loss but are not ready to make changes in their existing production methods. When competition increases, they are pushed out of the market as it becomes uneconomical for them to exist and operate in a competitive market.

## **(6) According to Capital Ownership**

**(i) Private entrepreneur:** When an individual or a group of individuals set up an enterprise, arrange finance, bear the risk and adopt the latest techniques in the business

with the intention to earn profits, he or the group is called as private entrepreneur/ entrepreneurs.

**(ii) State entrepreneur:** As the name indicates, state entrepreneur means the trading or industrial venture undertaken by the state or the government itself.

**(iii) Joint entrepreneur:** Joint entrepreneur means the combination of private entrepreneur and state entrepreneur who join hands.

**(7) According to Gender and Age**

- (i) Man entrepreneur
- (ii) Woman entrepreneur
- (iii) Young entrepreneur
- (iv) Old entrepreneur
- (v) Middle-aged entrepreneur

**(8) According to Area**

- (i) Urban entrepreneur
- (ii) Rural entrepreneur

**(9) According to Scale**

- (i) Large scale industry entrepreneur
- (ii) Medium scale industry entrepreneur
- (iii) Small scale industry entrepreneur
- (iv) Tiny industry entrepreneur.

### **1.3.6 Entrepreneur Vs Professional Manager**

Generally, the two terms, entrepreneur and managers are used interchangeably but they differ in their meaning.

#### **1. Status**

An entrepreneur is the owner of his enterprise. He makes his own investment and owns his business. A manager is just an employee in the enterprise which is owned and run by entrepreneur

#### **2. Target**

The main target of an entrepreneur is to start his venture by setting up as a sole-trader or firm or a company. He sets his own goals and strives to achieve them. The main goal or motive of a manager is give his services to an enterprise set up by someone else i.e. an entrepreneur.

#### **3. Decision making**

All of the policies and strategic decisions, like those comprising of expansion diversification, take-over, mergers, capital budgeting affairs, pricing policy etc. are taken by the entrepreneur. While all those managerial, operational decisions which would have impact on the short-and medium-term results are taken by the managers.

#### **4. Rectification of wrong decisions**

The wrong decisions taken by the entrepreneur may not be rectifiable and may result in losses or even closure of the unit. whereas the wrong decisions taken by the manager can be amended and rectified by the entrepreneur.

#### **5. Innovation**

An entrepreneur innovates and exploits his innovation commercially. He keeps on changing the factors combination in order to increase profit and productivity. He acts an innovator also called a 'change-agent'. A manager is merely an officer or an executive who is appointed for the promotion of the unit. He simply implements the plans prepared by the entrepreneur and gives then practical shape. He is just a product of change.

## **6. Risk bearing**

An entrepreneur being the owner of his unit undertakes all risks and uncertainty of running his enterprise. A manager doesn't bear any risk because he is paid fixed salary.

## **7. Skills**

The skill expected from an entrepreneur is in the form of creativity, innovation, desire for high achievement, intuition etc., whereas manager depends on public dealing abilities and conceptual abilities.

## **8. Qualification**

An entrepreneur doesn't need to have distinct degree from a reputed university. Rather qualities like foresightedness, risk-taking, hard work, creative thinking etc. are more important. On the other hand, a manager now days need to possessed degree in the stream of management theory and practice. He has to appear for an interview to get a job.

## **9. Rewards**

The reward of an entrepreneur is the profit earned by him. Entrepreneur reward is uncertain and variable. Higher the profits, better the rewards and vice-versa. A manager gets his monthly salary as his reward for the services rendered by him. And his rewards are certain & fixed and regular.

## **Transition of the Entrepreneur to Manager**

Entrepreneurs are doers—they are independent and action-oriented. They rely on their own ingenuity, judgment and energy to plan and accomplish desired results.

To run their business smoothly, they depend on the following types of resources:

- (j) Human resources
- (ii) Intellectual resources
- (iii) Financial resources

- (iv) Physical resources
- (v) Information resources
- (vi) Emotional resources

Before the business has taken off, they mainly depend on themselves but once the business is underway, this picture undergoes a substantial change. They have to depend on employees, customers, lenders, investors, suppliers, government and hence, develop and maintain effective relationships with these parties in order to get desired results. This is where the entrepreneur have to make transition from being an entrepreneur to being a professional manager. Those entrepreneurs succeed and survive who are able to make this transition usually within few years of operating their business otherwise they don't survive even the first two years. As entrepreneur has to acquire the ability to manage and use new skills in addition to the positive entrepreneurial skills that had inspired and drove him to create business in the first place.

### **Tips To Become A Successful Entrepreneur**

1. Acquire sufficient and all-round knowledge about an enterprise you intend to start.
2. Be conservative in calculating income and lavish in calculating expenditure.
3. Don't expect quick and easy returns from your venture. Steady ventures are more desirable for growth than fluctuating returns.
4. Be prepared for delegation of work when needed.
5. Take moderate risks; neither too high nor too low.
6. Plan systematically and march ahead step by step according to the plan to achieve your goal.
7. Time management is necessary to maximum utilisation of your resources.

8. Collect maximum information about your competitor on continuous basis.
9. Don't avoid or run away from problems. Anticipate and boldly solve the problems.
10. Take the help of experts and experienced persons or entrepreneur, when in doubt.
11. Be a strong decision-maker. Take timely decisions after understanding and evaluating various alternatives. Don't hesitate taking difficult decisions.
12. Be cost and quality conscious.
13. Be committed to your work. Devotion and Dedication are virtues and answer to every problem.
14. Never delay your delivery schedule unless it has become inevitable.
15. Be bold and never give up in difficulties.

The meaning of an entrepreneur has been defined by military men, economists, psychologists and sociologists. In Indian Context, we define entrepreneur as one who launches his own venture whereas a pure entrepreneur is the one who brings about any innovation never occurred before. An entrepreneur doesn't have specific features. An entrepreneur could be a sensitive person, fat, thin, worrier, creative, competent, leader, social but some key qualities have been identified which every entrepreneur must possess in order to succeed. Those qualities are innovation, risk-taking, hard-work, Self-confidence, goal-setting and above all, their burning desire to excel. An entrepreneur is not a package of qualities. Different entrepreneurs exhibit different traits. There are various types of entrepreneur like business entrepreneur, trading entrepreneur, industrial entrepreneur, pure entrepreneur, induced entrepreneur, technical entrepreneur, non-technical entrepreneur, professional entrepreneur, first generation and second generation entrepreneur etc.

An entrepreneur performs various types of functions. Growth of his enterprise depends upon the way; he performs various functions like innovation, risk-taking, decision-making, organisation and management.

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## **1.4 MEANING OF ENTREPRENEURSHIP**

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Entrepreneurship is an abstraction and entrepreneurs are tangible persons. Well-designed and controlled research studies on entrepreneurship are very few. If we view entrepreneurship as opposed to management, it becomes still more difficult to define entrepreneurship.

Entrepreneurship is a role played by or the task performed by the entrepreneur. The central task of the entrepreneur is to take moderate risk and invest money to earn profits by exploiting an opportunity. For this he must possess far-sightedness to perceive an opportunity so that he can exploit it well in time. Although an entrepreneur has to perform diverse functions yet he must manifest many qualities in himself to be a good entrepreneur.

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

The word 'entrepreneurship' typically means to undertake. It owes its origin to the western societies. But even in the west, it has undergone changes from time to time. In the early 16th century, the term was used to denote army leaders. In the 18th century, it was used to denote a dealer who buys and sells goods at uncertain prices. Towards 1961, Schumpeter, used the term innovator, for an entrepreneur. Two centuries before, the concept of entrepreneurship was shady. It is only in the recent years that entrepreneurship has been recognised widely all over the world like in USA, Germany, and Japan and in the developing countries like ours. Gunnar Myrdal rightly pointed out that Asian societies lack entrepreneurship not because they lack money or raw materials but because of their attitudes. Till recently, the entrepreneurship is mainly an attribute of an efficient manager. But the success achieved by entrepreneurs in developing countries demolishes the contention that entrepreneur is a rare animal and an elusive character. In India, the definition of 'an entrepreneur being the one who undertakes to organise, own and run a business' has been accepted in a National Seminar on Entrepreneurship organised in Delhi in 1975. Still there has been no consensus on the definition of entrepreneurship and qualities of entrepreneurship.

Incidentally, entrepreneurship has engaged the attention of sociologists, psychologists and economists. Sociologists analyse the characteristics of an entrepreneur in terms of caste,

family, social status, etc. Psychologists analyse their attributes on the basis of their personality traits such as need for achievement, affiliation and power, risk taking, decision making, creativity, leadership etc. The economists analyse them on the basis of occupational background, access to capital, business and technical experiences.

McClelland identifies two characteristics of entrepreneurship. Firstly, doing things in a new and better way (Schumpeterian's innovator). Secondly, decision making under uncertainty (Cantillon's entrepreneur). McClelland emphasised that entrepreneurial manager should have a high need for influencing other (need for power), a low need to establish emotional relationships (low need for affiliation) and a high capacity to discipline one's own self (inhibition). In other words, entrepreneurship means the function of creating something new, organising and coordinating and undertaking risk and handling economic uncertainty. "Entrepreneurship is meant the function of seeing investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging for supply of raw materials and selecting top managers for day to day operations of the enterprise."

Entrepreneurship refers to the function performed by an entrepreneur in establishment of an enterprise. It is regarded as what entrepreneur does.

According to **A. H. Cole**, "An entrepreneurship is the purposeful activity of an individual or a group of associated individual undertaken to initiate or maintain profit by production or distribution of economic goods and services."

According to **Schumpeter**, "Entrepreneurship is based on purposeful and systematic innovations. It included not only the independent business man, but also directors and managers who actually carry an innovative friction."

According to **Robert K. Lamb**, "Entrepreneurship is that form of social decision making which is performed by economic innovation."

According to **Peter F. Drucker**, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organise a profit-oriented business unit for the production or distribution of economic goods and services".

According to **V.R. Gaikwad**, "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful".

Thus to sum up we may conclude that entrepreneurship is called as risk bearing, innovating and thrill seeking activity. It is also the tendency of a person to organise in the business of his own and to run it profitably using all the qualities of leadership, decision-making etc. The term entrepreneur is often used interchangeably with entrepreneurship. But conceptually they are different.

<u>Entrepreneur</u>	<u>Entrepreneurship</u>
Person	Process
Organiser	Organisation
Innovator	Innovation
Creator	Creation
Risk bearer	Risk bearing
Motivator	Motivation
Leader	Leadership
Visualiser	Visualisation
Imitator	Imitation
Decision maker	Decision making

One who safely concludes that entrepreneurship implies a commitment to expand and grow which is also one of the major determinants of industrial development.

#### **1.4.1 Factors Responsible of Emergence of Entrepreneurship**

According to **Oxford** English Dictionary Environment means ‘Surrounding objects, regions or circumstances’. It is the sum total of external factors within which the enterprise operates. Entrepreneurs do not emerge on their own basis. Various economic, social, political, technological and psychological factors are responsible for the emergence and growth of entrepreneurship. Environmental forces exert both positive and negative impact on entrepreneurship. Positive impact refers to existence of various factors facilitating growth and negative impact refers to those factors adversely affecting emergence and growth of entrepreneurship. The process of interaction and adaptation between an individual and the environment is ever going on process. At any given moment of time; the individuals

take meanings from the situations in which they find themselves through the media of social rules, group norms and cultures, past experiences and future expectations.

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

Various environmental factors affect the emergence & growth of entrepreneurship and they are discussed as under:

1. Economic Environment
2. Social Environment
3. Psychological Factors
4. Attitude of Government
5. Economic and Technical Know-how

6. Financial Assistance
7. Mobility of Entrepreneurs
8. Competitive Factors
9. Opportunity Analysis

### **I. Economic Environment-**

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

- (a) **Capital.** Capital is one of the most important factor of production for the establishment of an enterprise. Adequate funds are required for bringing together other factors of production) It is with the capital that other factors of production like labour raw material, machinery etc. can be arranged. Capital acts as a lubricant for the production process. Increase in capital investment in viable projects results in increase in profits which help in accelerating the process of capital formation. Entrepreneurship activity too gets a boost with the easy availability of funds for investment.
- (b) **Labour.** Easy availability of right type of workers also, effect entrepreneurship. The quality rather than quantity of labour influences the emergence and growth of entrepreneurship. The advantages accruing to an entrepreneur due to low cost labour are often offset by the disadvantages arising out of immobility of unskilled workers. The disadvantages arising out of immobility and high cost labour can be better tackled by resorting to capital intensive technologies. But a country like India, confronted with the twin problems of unemployment and shortage of capital, cannot afford to adopt capital intensive technologies. Labour intensive rather than capital intensive technology will serve our interests in a better manner. The problem of labour immobility can be solved by providing infrastructural facilities including efficient transportation, wherever entrepreneurship is to be promoted.

- c) **Raw Material.** Raw material is one of the basic ingredients required for production. Shortage of raw material can adversely affect entrepreneurial environment. Without adequate supply of raw materials no industry can function properly and emergence of entrepreneurship too is adversely affected. Shortage, high prices and inferior quality of raw materials are the major problems confronting entrepreneurs. The more favourable are these conditions, better would be its influence on entrepreneurial emergence.
- (d) **Market.** The role and importance of market and marketing is very important for the emergence and growth of entrepreneurship. Monopoly in a particular product line is more “tempting to an entrepreneur than competitive markets. In the modern competitive world no entrepreneur can think of surviving in the absence of latest knowledge about market and various marketing techniques. The benefits of improved and healthy market conditions in the environment on entrepreneurial growth are self evident. Germany and Japan are the examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Entrepreneurs should keep track of main trends in the economic environment. Market demand depends upon purchasing power which in turn depends upon current income, prices, savings and availability of credit? Changes in major economic variables like money income, cost of living, interest rates, savings and credit availability have an immediate impact on the working of an enterprise.

## II. Social Environment

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

Family background greatly influences the entrepreneurial environment and maintenance of social system. The environment of the family affects entrepreneurship. Joint family can provide family resources to invest and expand family business? If the father is a professional, entrepreneur or businessman, the son is more likely to enter the same line because of certain inherent advantages. Background of a family in manufacturing provides a source

of industrial entrepreneurship. Mobility of the entrepreneur is influenced by the occupational and social status of the family. Social status too affects entrepreneurship.

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

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

Social mobility involves the degree of social and geographical mobility and the nature of mobility within the system. The opinion that social mobility is crucial for entrepreneurial-emergence is not unanimous. There are persons of the view point that high degree of mobility is conducive for the emergence of entrepreneurship. At the same time there are others of the opinion that lack of mobility would result in the emergence of entrepreneurship. There are still others putting forth the argument that the system should not be too flexible or too rigid because the former would pull the entrepreneur away from his role and latter would restrict the entrepreneur. Social marginality also positively influences entrepreneurship. Social marginality implies a situation in which there is a discontinuity between the individuals' personal attributes (comprising of physical characteristics, intellectual make up and social behaviour patterns) and the role or roles which the individual plays in the society. A person belonging to a social group traditionally constrained to enter economic activity and barred from any other activity by the society is expected to choose the ownership manager role in a small industry. The number of openings available also

affects the emergence of entrepreneurship. Expanding economy and increase in per capita income give boost to the entrepreneurial activity. Similarly the pace of structural change in the economy opens new opportunities for the prospective entrepreneurs.

Environmental activists have repeatedly highlighted the havoc caused by some of our petrochemical, heavy chemical, dyestuff and other polluting industries as also the environmental damage caused by large scale deforestation, open mining, quarrying etc., which will take decades to rectify. Technology has advanced significantly to allow efficient use of resource. Throughout the world industry has become conscious of the need to use renewable resources as far as possible to utilise non renewable resources within planned limits. With potential development taking place in the industry we should learn from past incidences of industrial disasters leading environmental disasters and ensure further growth consistent with environmental protection.

### **III. Psychological Factors**

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

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

money or other such incentives but the people with high achievement motivation work for status.

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

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

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

Hagen was of the opinion that the withdrawal of status respect of a group led to the emergence of entrepreneurship in Japan. Hagen states that the initial conditions leading to eventual entrepreneurial behaviour are the loss of status respect by a group and four different types of events can produce status withdrawal—

- (a) The group may be displaced by force.
- (b) It may have its value symbols denigrated.
- (c) It may drift into a situation of status inconsistency.
- (d) It may not be accepted into expected status on migration in a new society.

Whenever there is any withdrawal of status respect it would lead to four different responses and create four different types of personalities.

- (a) **Retreatist.** It refers to the person who continues to work in the society but remains indifferent to his work and position.
- (b) **Ritualistic.** He is the type of person who adopts a kind of defensive behaviour and acts in a way accepted and approved in his society but with no hope of improving his position.

(c) **Reformist.** He is the one who ferments a rebellion and attempts to establish a new society.

(d) **Innovator.** A creative individual is likely to be an entrepreneur.

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

#### **IV. Attitude of Government**

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

(a) To maintain a proper distribution of economic power between private and public sector.

(b) To encourage the tempo of industrialisation by spreading entrepreneurship to every city, town or village.

(c) To disseminate the entrepreneurial talent concentrated in a few dominant communities to a large number of people of varied social and economic groups.

It is the government which regulates business activities. Government policies are going to influence all the decisions of the entrepreneurs regarding what to produce, how much to

produce, of what quality to produce, where to produce and for whom to produce. The entrepreneurs are to operate within the concessions and limits set by the government. It is in the interest of the potential entrepreneur to thoroughly scan the government policies before taking decision with regard to setting up his enterprise.

#### **V. Education and Technical know-how**

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

#### **VI. Financial Assistance**

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

#### **VII. Mobility of Entrepreneurs**

Mobility refers to the drive in the entrepreneurs to locate green postures for setting up their units. It is an urge to move to other places in search of better opportunities. In India, Marwaris, Sindhis and Sikhs have moved to every corner of India and abroad to carry on business and entrepreneurial activities. They will help in reducing regional imbalances in

the economic growth. In the initial phase of industrialisation entrepreneurs set up their units at or near their places due to limited resources, communication bottlenecks and absence of institutional support. An entrepreneur after tasting success and gaining experience is ready to make investment anywhere. He is always on the lookout for opportunities, which can be exploited for furthering his business interests. He is not tied to any place and is ready to move to any place wherever viable business opportunities exist.

### **VIII. Competitive Factors**

No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of competing firms, their scale of operation, product range and features, prices channels of distribution, terms & conditions of sale etc. **Michael E Porter** states the following four factors for the analysis of industry and competitors.

**1. Existing and Potential Entrants.** Various aspects studied are capital requirement, scale of operation, product differentiation, channels of distribution etc. Threat perception from existing and potential entrants is scanned under this head.

**2. Bargaining Power of Buyers.** Keeping in mind demand and supply position, bargaining power of buyers is studied.

**3. Bargaining Power of Suppliers.** Bargaining power of suppliers of raw materials and other factors can be assessed keeping in mind the demand and supply position.

**4. Availability of Substitutes.** Demand for a particular product will depend upon the availability and prices of substitutes.

**5. Competitive or Industrial Environment.** An industry comprises of group of enterprises offering similar products or services. Industry includes close substitute products or services that satisfy same consumer needs. No prospective entrepreneur can afford to ignore competitive factors. Study of competitive factors covers members of the competing firms, their scale of operation, product range and features, prices, channels of distribution, terms and conditions of sale etc. An entrepreneur as a strategic manager has to analyse competitive forces in industrial opportunities and threats that a company will meet. Michael E. Porter has suggested a five forces model that helps the strategic manager to focus his attention on following five forces that determine the competition within an industry.

1. Risk of entry of potential competitors.
2. Degree of rivalry among established firms
3. Bargaining power of buyers.
4. Bargaining power of suppliers.
5. Threat of close substitute products.

In case above forces are strong, there is danger to the enterprise as it cannot earn more profits by increasing prices. On the other hand in case these forces are weak, they provide opportunities for the enterprise to earn more profits by increasing prices. An entrepreneur must assess these forces objectively and pick up strategy which is most appropriate keeping in mind these opportunities and threats.

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

1. Risk of entry of Potential Competitors.
2. Rivalry amongst existing companies.
3. Bargaining power of buyers.
4. Bargaining power of suppliers.
5. Threat of close substitute products.

#### **1.4.2 Relevance of Entrepreneurship in Career Growth**

An entrepreneur is a person who takes risks and starts something new. As the meaning of entrepreneur has evolved over a period of time, entrepreneur has emerged as an innovating and creative person who plays unique role for the growth of the economy. He is not merely a capitalist, merchant, manager, and contractor but has been identified as a player who plays a major role in job creation and innovation.

As is evident that the small enterprises:

Contribute more than one-third of industrial output of the country.

Contribute one-third of exports of the country.

Manufactures more than 8,000 products

Contributes approximately 6% in GDP of the nation.

Is largest employment provider, after agriculture in India?

Why has the government started taking increased interest in the entrepreneurial growth since early 90s? It is because that the government has realized that large scale organizations can't provide an environment for self-actualization of the masses. Female entrepreneurs do don't take the risk of starting a large-scale enterprise. That's why there is a growing awareness o adopt entrepreneurship as a career as this is the only career to bring out your creative and innovative ideas and sufficient profits are also ensured. Robert D. Hisrich views that career stages are dynamic and each stage in the career reflects and interacts with other stages and events in an individual's life-past, present and future. According to him, this life-cycle |approach divides the concept of entrepreneurial career in nine major categories: educational environment, the individual's personality, childhood family environment, employment history, adult development history, adult network history, current work situation, the individual's current perspective and current family situation.

**Educational Environment.** It is things of the past that entrepreneur are less educated. This is true that law prescribes no degree to become an entrepreneur like in case of professionals. The individuals are acquiring high education even if they intend to adopt entrepreneurship as a career. On February 2, 2008 Entrepreneurship Week India was launched across the country. Over 275 NEN, (National Entrepreneurship Network) campuses turned themselves over to entrepreneurship. NEN has students as its members who are pursuing engineering courses, MBA courses etc. from the best institutes like IITs, engineering colleges, IIMs etc. established all over the country. NEN ([WWW.nenonline.org](http://WWW.nenonline.org)) is India's Leader in entrepreneurship education, reaching over 3, 00,000 young people. NEN supports new and future entrepreneurs with information, experts and community.

However, this is also true that the type and quality of education being imparted to the students don't develop the specific skills needed in the venture creation and management process.

Due to increase awareness of entrepreneurial education, the curriculum of various graduate and post graduate courses has introduced entrepreneurship as a compulsory paper.

### **Childhood Family Environment**

Childhood influences shape the personality traits. The personalities of second-generations entrepreneurs are such that are likely to possess entrepreneurial traits like need for achievement, creativity, risk-taking, innovativeness, desire to lead and control etc. Studies reveal that entrepreneurial fathers and mothers do play an important role in establishing the desirability, possibility and credibility of entrepreneurship as a career path. Roberts developed the idea of 'the entrepreneurial heritage' which includes father's occupation, family size, first-born son, childhood experiences are strong influences to adopt entrepreneurial career. A study of 500 women entrepreneurs found that the majority of those in the sample had fathers who were self-employed. Some cultures feel that the first-born son must be an entrepreneur like his father as they can develop a greater self-confidence.

While these factors are important, but they are by no means deciding factors. The myth that the entrepreneur are born and not made doesn't stand true. It states that the entrepreneurship is a discipline that can be taught and mastered like any other. As the same time, it may be true that the techniques of entrepreneurship 'can be taught' or learned', but educators' can't turn people into entrepreneurs. Research at the University of Minnesota on identical twins separated at birth and reared in different environments has built up a solid body of evidence that shows that many character traits are shaped by genetics. From this work, it is estimated "that the genetic contribution to 'personality' is around 40 percent".

### **Employment History**

Employment history also has an impact on entrepreneurial careers in both a positive and a negative sense. Studies show that most of the entrepreneurs start their businesses in the same market and industry as they are working in. They do gain experience prior to their first start up as an entrepreneur as it increases their probability of success. It is all the easier for such individuals to obtain financial assistance and fulfill other formalities needed for starting a unit. Entrepreneurs agree that experience in the 'University of Life' or 'the

school of hard knocks' is what develops the entrepreneur. An entrepreneur who has work experience has an advantage of having found a role model who, if good, will inspire him. Role model can become mentors and often have a hand in getting the new entrepreneur started. But if the role model is a bad one then the potential entrepreneur can find the experience frustrating.

Negative displacement which may occur due to dissatisfactory job conditions, dismissal, demotion or transfer to an undesirable location or having one's spouse take a new position in a distant area etc. also encourages entrepreneurship to be adopted as a career.

Risk-taking and occasional failure are part and parcel of entrepreneurial life. Failure has its own benefits. Entrepreneurs who never fail probably are not acting boldly enough. Sometimes, failure forces a person to search in areas he had overlooked or dismissed, finding greater opportunities than he would have realized had his original plans succeeded. These successful entrepreneurial leaders talk about their brushes with failure in the past and share their insights they have gained. Their message; they and their companies are stronger today than they would have been had their life experience consisted of an unbroken chain of triumphs.

### **Adult Development History**

There are no researches to support this category; however, one's development history also has an impact on his/her entrepreneurial career. One may intend to start his business at a later stage in life after having experienced significantly more job frustration.

### **Current Work Situation**

Entrepreneurs are known for their strong work values and aspirations, their hard working schedule and effective management styles. They are indeed in love with their organization. They are ready to sacrifice almost anything to ensure the survival and growth of their enterprise. They are always looking for untapped opportunities, exploit them and make it happen. There is a visionary element in their ideas which they put into practice and achieve which holds the key to success.

The vision of the promoter of Vishal Retail Limited is, "Right now, I think organised retail occupies 4-5 percentage of the actual potential. In my opinion, in the next five years, this

will increase up to 25 percent. That 20 percent jump can be looked at as one big change in the Indian retail industry.” Such visions take the highest priority in entrepreneur’s life and are the source of the entrepreneur’s self-esteem.

### **Current Perspective**

Entrepreneurship education is a fast growing area in colleges and universities in India. Many universities offer entrepreneurship as a compulsory subject at graduate and post graduate level. Government has been making consistent efforts to generate awareness about entrepreneurship adopted as a career. There are numerous financial and non-financial institutions, NGOs and several other non-profit organizations working to promote it as a career.

Time is ripe to make courses on entrepreneurship a part and parcel of our education system and to increase spend on R & D to promote innovation.

In addition to various institutions established by the government assisting entrepreneur like SIDO, SISI, SIDBI, NABARD, SFCs, SIDCs, Research centers, Training institutes, NGOs etc. there are new options that have come to a rise.

- The Indus Entrepreneur (TIE)
- Educational Institutions
- National Entrepreneurship Network (NEN)
- Individual Consultants
- IIT Bombay’s e-cell

**The Indus Entrepreneurs (TIE)** was founded in 1992 by a group of successful entrepreneurs, corporate executives, and senior professionals. A not-for-profit organization, it helps young entrepreneurs typically those who have thrashed a team and a business plan-sound out their ideas and fine-tune their strategies by getting them in touch with veteran industry professionals or entrepreneurs in the field. It has around 150 industry veterans as its charter members in its Delhi Chapter and over 100 with its Bangalore Chapter, two of the biggest chapters for the organization.

- **National Entrepreneurship Network (NEN)** was established in 2002 and is relatively a new entrant. It has focused on basic entrepreneurship education, rather than hands-on mentoring like TTE's guru-shishya model. It has points of presence in nearly 300 educational institutions in 30 cities across the country and nearly 40,000 active members. It has ties up or partnership with educational institutions, it encourages them to create and open up entrepreneur-oriented events and workshops to a wider audience. NEN's membership is free but it will start charging for membership fee in a few months. The Network has 30 member-institutes in Bangalore and 34 in Calcutta.

- **IIT Bombay's e-cell.** IIT Bombay's e-cell is another help centre for aspiring entrepreneur. This cell is organizer of India's biggest business plan competition Eureka. In addition to events like Eureka, the students in the cell are setting up a year-round support network for entrepreneur—the Global Entrepreneur Network or GEN. The cell also tries to make two people available everyday on phone to answer queries from entrepreneur.

### **Individual and Consultants**

Another entrepreneurial career option is to “buy” or seek mentorship from individuals. While it may sound expensive, many consultants are happy to take a small portion of the equity, under 15%, in return for their mentorship. Vijay Anand, a Chennai-based serial entrepreneur is associated with more than 80 start-ups.

“I have bootstrapped three of my own ventures, and have built close to seven companies from scratch. I know what it takes to build. I have networks going as far as Guy Kawasaki and Steve Jobs. If there is a team or a company that looks like a success story, I am willing to help.”

—Vijay

Vijay gives free mentoring in selective cases.

### **Steps in Selection of New Career**

In the modern competitive environment of rapid change in tastes and technology a company cannot rely solely on existing products. Customers expect new and improved products

from an entrepreneur. New products, depending on new ideas, are the future of a business. Without a conscious flow of new products the marketing system would probably die.

There are various steps in the selection of a new business idea and they are discussed as under:

**(i) New Product Ideas.** An attempt is made to visualize the product. An in-depth study may be undertaken to anticipate features of the proposed product. Ideas may be contributed by scientists, professional designers, rivals, customers, sales force, dealers, top management, magazines, new shapes, surveys etc. A detailed list of new ideas about potential product is prepared and an earnest attempt is made to find out commercially viable product.

**(ii) Idea Screening.** Under this step detailed investigation of various ideas is carried on. Those ideas which offer less scope or are not promising are dropped. Most promising and viable ideas are carried to the next stage for in-depth investigation and research.

**(iii) Concept Development and Testing.** All ideas chosen after preliminary screening are subjected to in-depth study. These ideas are developed into mature product concepts. An attempt is made to find out minute details of the ideas and resulting features of the proposed product. Concept development and testing product ideas is undertaken keeping in mind preferences of the consumers. Concept testing enables a firm to pick up the best product concept amongst alternative product concepts.

**(iv) Business Potential Analysis.** After picking up the best product concept, detailed investigation is carried out to find out its market potential, gestation period, capital investment and expected rate of return. Business potential analysis covers demand analysis, cost benefit analysis, competition analysis, profitability analysis etc. Business analysis can help in finding out soundness and viability of the selected product concept. Basic idea behind this analysis is to ascertain the viability and profitability of the proposed product.

**(v) Product Development.** After clearing business potential analysis test concrete steps are taken for giving practical shape to the proposed product. Product development decisions include the type and quality of materials comprising the product, the method of production, cost and production time requirements per unit, plant capacity, alternative sizes and columns, name, trade-mark and image sought, testing of the model product will provide the ground for the final selection of the most promising model of the proposed product.

**(vi) Test Marketing.** According to **Philip Kotler**, “Test marketing is the stage at which the product and marketing programs are introduced into more realistic market settings.” Test marketing involves placing a fully developed new product for sale in one or more selected areas and observing its actual performance under a proposed marketing plan. The purpose is to evaluate the product and pretest marketing efforts in real setting prior to commercialization. Before launching a new product in the market, the producer is interested in knowing about consumer opinion so that a stable and accepted product is introduced in the market. A producer can get vital clues for product improvement and for modification in marketing mix.

**(viii) Commercialization.** Commercialization is the actual introduction of the product into the market place with all the related decisions and resource commitments. Under this step raw materials and component contracts are to be made with the suppliers, channels of distribution are to be selected, manufacturing facilities comprising of equipment, processes are set in operation, sales people are hired and trained, advertising and other sales promotion efforts are initiated. With commercialization a product starts its introductory stage of product life cycle.

The search for a new product or business idea is a never ending activity. An entrepreneur is required to monitor the new product through various stages of its life cycle. He has to keep his eyes and ears open to find out new opportunities to be exploited to promote his business interests.

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## **1.5 ENTREPRENEURSHIP DEVELOPMENT IN OTHER COUNTRIES OF THE WORLD**

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Enterprise is the crucial engine of the economic growth. Without enterprise and entrepreneurship there would be little innovation, little productivity growth and few new jobs. Entrepreneurial success is the mix of attitudes, resources and infrastructure which is also known as the entrepreneurship ‘ecosystem’.

### **Global Entrepreneurship Index (GEI):**

GEI is an annual index that measures the health of the entrepreneurship ecosystem in 120 countries. It then ranks the performance of these against each other. This provides a picture of how each country performs in both the domestic and international context.

### **The Global entrepreneurship and Development Institute (GEDI):**

The GEDI is Washington, DC-based policy development organisation and a research organisation that advances knowledge on links between entrepreneurship, economic development and prosperity. And GEDI is a breakthrough advance in measuring the quality and dynamics of entrepreneurship ecosystem.

The following table and its findings reveal the entrepreneurship development in various countries of the world. The 2014 index includes six instances where up to three countries received the same overall Gender-GEDI Index scores and so their rankings are tied. This occurred for France and Germany, tied for 4<sup>th</sup> place and both receiving a score of 67. South Africa, South Korea and China all had a final score of 42 and are tied for 11<sup>th</sup> place. Peru and Japan both receive a score of 40 and tied for fourteenth place, while Turkey and Russia are tied for 18<sup>th</sup> place with a score of 36. Morocco and Ghana tied for 24<sup>th</sup> place with a score of 27 and Uganda is tied with Egypt for 27<sup>th</sup> place with an overall score of 19.

It is important to note that each country in the Gender-GEDI Index is characterized by strengths and weaknesses and that there is room for improvement at all levels. Even top scoring countries such as the United States which receives a final score of 83 on a 100-

<b>Rank</b>	<b>Country</b>	<b>Score</b>
1	United States	<b>83</b>
2	Australia	<b>80</b>
3	Sweden	<b>73</b>
4-5	France	<b>67</b>
4-5	Germany	<b>67</b>
6	Chile	<b>55</b>
7	United Kingdom	<b>54</b>
8	Poland	<b>51</b>
9	Spain	<b>49</b>
10	Mexico	<b>43</b>
11-13	South Africa	<b>42</b>
11-13	South Korea	<b>42</b>
11-13	China	<b>42</b>
14-15	Peru	<b>40</b>
14-15	Japan	<b>40</b>

<b>Rank</b>	<b>Country</b>	<b>Score</b>
16	Panama	39
17	Thailand	38
18-19	Thurkey	36
18-19	Russia	36
20	Brazil	35
21	Malaysia	32
22	Jamaica	30
23	Nigeria	29
24-25	Morocco	27
24-25	Ghana	27
26	India	26
27-28	Uganda	19
27-28	Egypt	19
29	Bangladesh	17
30	Pakistan	11

## Key Findings

In the 2014 Gender GEDI Index, the number of countries analyzed increased from 17 to 30. Built upon the same theoretical framework as the 2013 Gender- GEDI-measuring environment, ecosystem and individual aspiration, and scoring nations on a scale ranging from 0 to 100- our analysis this year uncovers the following key findings:

- The United States (with a score of 83), Australia (80) and Sweden (73) are the top ranking countries in the 2014 Gender-GEDI. They are followed by France and Germany (tied at 67), Chile (55), the United Kingdom (54) and Poland (51) which all received an overall score of 50 or more.
- Twenty-two countries received an overall Gender-GEDI score of less than 50 out of 100, indicating that many of the fundamental conditions for high potential female entrepreneurship development are generally lacking in the majority of countries.
- The Gender-GEDI Index identifies strengths and weaknesses at all score levels. Top performers who rank in 1st through 8th place tend to have good overall business environments and would benefit from supporting programs to activate and accelerate the growth of high-potential women entrepreneurs.
- Fourteen countries ranked from 9th to 22nd place in the Gender-GEDI Index make up the ‘Moderate Performers’ group. The areas that mid-ranking economies could focus on to move them into the highest-ranking tier would be both to implement current women’s enterprise development interventions and support as well as make basic improvements in the business-enabling environment.
- In the lowest tier are eight economies ranked 23rd to 30\* place in the Gender-GEDI Index. They include Nigeria (29). Morocco & Ghana (both 27), India (26), Uganda & Egypt (both 19), Bangladesh (17) and Pakistan (11). The areas that need improvement for the lowest-performing economies include basic legal rights and education for women and acceptance of women’s social and economic empowerment, in addition to specific

women's enterprise development support and the overall business environment in terms of regulations, R&D investments and capital markets.

- Among the 17 countries included in both the 2013 and 2014 Gender GEDI Index reports, four increased their ranking and four declined. Japan improved the most, up three places from 12th to 9th. Brazil jumped two places, from 14th to 12th. India and the United Kingdom each moved up one place in the rankings. The biggest decline was seen in Malaysia, which dropped four ranks, from 9th to 13th. Egypt, Mexico and Morocco each dropped one place on the comparative 2013-14 ranking.

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## **1.6 WOMEN ENTREPRENEURS**

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The woman or a group of women who initiate, organize, and operate a business enterprise is known as women entrepreneur. A woman entrepreneur has to perform all the activities involved in establishing and enterprise. These include idea generation and screening, determination of objectives, project preparation and product analysis etc.

“Any woman or group of women which innovates, imitates or adapts an economic activity may be called woman entrepreneurship” **Frederick Harbison**

“A woman entrepreneur is defined as an enterprise owned and controlled by a woman and having a minimum financial interest of 51 % of the capital and giving at least 51 % of the employment generated in the enterprise to women”. **Government of India**

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

The term woman entrepreneur signifies that section of female population who venture out into industrial activities. i.e. manufacturing, assembling, job works, repairs/servicing and other business”. In fine, woman entrepreneurs are those woman who generates business ideas or select the best opportunity, mobilize resources, combine the factors of production, undertakes risks and operate the enterprise in the most effective manner with a view to earning profit.

Women entrepreneur are the key players in any developing country particularly in terms of their contribution to economic development. In recent years, even among the developed

countries like U.S.A and Canada, women's role in term of their in small business has been increasing.

We may think that Indian women can't go beyond home has been convincingly demolished by modern age. As women are migrating to towns and cities, there is education and economic independence. Doors are opening giving her access to areas where she can grow and blossom as a person in her own right. Indian women have boldly invaded the wither to forbidden land of entrepreneurship taken to risk, face the challenges and prove to the world that socially, politically, physically, psychologically, they are not merely as the receiving end. A section of urban women emerged as potential entrepreneurs. Women do not have vast entrepreneurial talent which can be harnessed to covert them from the position of job seekers to the job giver. Entrepreneurship itself has been recognized as a full fledged profession and women entrepreneurship is an even newer phenomenon in India.

Indian women have increasing opportunities like, higher level of education, economic, compulsions, constitutional right to guarantee them equal opportunities, gender equality through empowerment of women, economic empowerment, etc. women also have desires and also aspire to enter and succeed in all fields at par with men. The above said argument is confirmed by the facts that the number of women in technical, professional, engineering streams has been increasing. For instance, potential women entrepreneurs have increased from 6000 in 1950-51 to 3, 28,000 in 1996-97. But in spite of their aspirations, Indian women are far behind than women entrepreneurs of their countries like Japan and china. Indian women entrepreneurs started their entrepreneurial work in 1970's but are still not at par with women entrepreneurs of China and Japan where the entrepreneurial week started mainly in 1980's. Polytechnics and ITI's have only 15 percent girls out of total enrolled students. And those who join or set their own enterprises is still less in number.

Women have played a very small role in the field of business. In a male dominated society, women have been victims of social prejudices and discrimination. Women are considered to be weak, passive and dependent on others. They are not exposed to risks which adversely affect their self confidence, innovativeness and risk taking ability. In traditional Indian society, women are confined to four walls. Parents prefer male child to female. Lakhs of foetus are destroyed after pregnancy tests reveal it is female. In several developing

countries like India, marriage is the only career for most women. Women have confined their activities to selected professions such as teaching, nursing, medicine and office work. Very few women enter professions like industry, engineering, trade, etc.

### **1.6.1 Characteristics of Women Entrepreneurs**

- 1. Management and control:** A woman or group of women managed the whole business of enterprises. She prepares various plans and executes them under her own supervision and control.
- 2. Employment to woman:** Entrepreneur must provide at least 51% of the employment generated in her enterprises to women.
- 3. Risk taking:** Risk means uncertainty. A woman entrepreneur takes calculated risk. She faces uncertainties confidently and assumes risk.
- 4. Good organizer:** The most critical skill required for industrial development is the ability of building a sound organization. A woman entrepreneur assembles, co-ordinates, organizes and manages the other factors namely, land, labour and the capital. She obtains the factors of production from the society and supplies them finished products.
- 5. Self confidence:** It is essential to be self confidence for a woman entrepreneur. She should have faith in herself and in her abilities. She should have the confidence to implement the change and overcome any resistance to change.
- 6. Decision maker:** The main function of women entrepreneur is to make decisions. She takes various decisions regarding the activities of his enterprise. She decides about the type of business to be done and the way of doing it. A woman entrepreneur must be clear and creative in decisions making process.
- 7. Visionaries:** A woman entrepreneur is one who incubates new ideas, starts her enterprises with these ideas and provides added values to society based on their independent initiative.
- 8. Hard worker:** A distinguishing feature of a woman entrepreneur is the willingness to work hard. She has to follow the principles, "Hard work is the key to success".

9. **Achievement oriented:** A woman entrepreneur is a achievement oriented lady, not money hungry. She works for challenges, accomplishment and service to other. Achievement orientation is derived to overcome challenges to advance and to grow.
10. **Optimistic:** A woman entrepreneur must be optimistic. She should approach her venture with a hope of success and optimistic attitudes. She attempts her task with a optimistic attitudes for success rather than fear of a failure. The positive thinking of entrepreneur can turn the situation favourable to her.
11. **Technically competent:** The success of enterprises largely depends upon the ability of women entrepreneur to cope with the latest technologies. Technical competency refers to the ability to devise and use the better ways of producing and marketing goods and service.
12. **Bold and brave:** Woman entrepreneur face the adversities boldly and bravely. She has faith in herself and attempt to solve the problem even under the great pressure.
13. **Mentally sound:** A woman entrepreneur is an energetic, single minded having a mission and a clear vision she should be the lady of creative thinking and analytical thinking. She must be intelligent, adaptable and problem solver.
14. **Leadership:** Leadership qualities are most important characteristics of a woman entrepreneur. It is the process of influencing and supportive other to work enthusiastically towards achieving objectives

### 1.6.2 Functions of Women Entrepreneurs

Like a male entrepreneurs, a women entrepreneurs has to perform the following functions:

#### A. Entrepreneurial functions

**1. Innovation: J. Schumpeter** has made substantial contribution to the literature of entrepreneurship she says that an entrepreneur is basically an innovator and she introduces something new in the economy. Innovation is the basic function of entrepreneur. As an innovator, the entrepreneur has introduced new combinations of means of production, new product, new market for product and new sources of raw material. As an innovator, entrepreneur identifies the potentially profitable opportunity and tries to exploit it. Innovation

refers to doing new things. It includes introduction of new products, creation of new markets, application of new process of production, discovery of new and better sources of raw materials and developing a new and better form of industrial organization.

**2. Risk taking:** Risk taking is also the fundamental function of an entrepreneur. Risk taking refers to take responsibility for loss that may occur due to unforeseen contingencies of the future. An entrepreneur reduces uncertainty in his plan of investment, diversification of production and expansion of the enterprise. She is a self confident and highly optimistic person willing to assume the risks involved in innovations, new ventures and expansion of an existing venture.

**3. Organization building:** Organization and management of the enterprise is the main function of an entrepreneur. It refers to bring together the various factors of production. The purpose is to allocate the productive resources in order to minimize the losses and reduce costs in production. All the decision relating to enterprise is taken by entrepreneurs. She alone determines the lines of business to expand and capital to employ. Thus, entrepreneur is the final judge in the conduct of business.

## **B. Promotional functions**

### **1. Conception of an idea:**

The first promotional function of entrepreneur is the conception of a new idea. She visualize that there are opportunities for a particular type of business and it can be profitably run. The idea may be to exploit a new area of natural resources or more profitable ventures in an existing line of business. She develops this idea with the help of technical experts in that field. If they are convinced that profitable avenues are available in that line of business then the idea is taken forward for more exhaustive analysis.

### **3. Detailed investigation:**

The entrepreneur will estimate total demand for the product. There may be certain concerns already in that type of business and so she will determine his share of demand. After determining the prospective demand for goods she will think of arranging finances for the venture. The availability of power, labour, raw materials and machinery is also considered.

The cost structure of the product is analyzed to find out profitability from the venture. An expert opinion is sought of the viability of the project.

The work of estimation becomes more difficult if the proposed line of business is new. The estimate should be based on proper analysis of different factors. A guess work creates problems later on.

#### **4. Assembling the requirements:**

After making sure that the proposition is practical and profitable, the entrepreneur proceeds to assemble the requirements. She persuades some more persons to join hands with him by becoming directors or founder members. If she has invented something new, she should get it registered in his name. She may also acquire some patent rights. The entrepreneur selects the factory site, decides about plant and machinery and contacts suppliers or raw materials, etc. She does not purchase all these because it involves huge sums of money. Instead of going for outright purchase he uses option methods. The contracts are finalized by paying option money and the ultimate purchase is done only when the company is incorporated. If the company fails to come up, the entrepreneur only loses option money.

#### **5. Financing the proposition:**

The entrepreneur decides about the capital structure of the enterprise. The requirement of finances is estimated first. Then the sources from which this money will come are determined. How much share capital will be issued, the type of the shares to be issued, and the nature of loans, whether debentures or borrowing from financial institutions for a longer period all are finalized. Generally, commercial banks are helpful only in financing working capital requirements. The financial requirements for short period and long period are estimated separately.

### **C. Managerial functions**

#### **1. Planning:**

Planning is a basic managerial function of entrepreneur. Planning helps in determining the course of action to be followed for achieving various entrepreneurial objectives. It is decision in advance, what to do, when to do, how to do and who will do it a particular

task. Planning is a process which involves thinking before doing. Planning is concerned with the mental state of entrepreneur. She thinks before undertaking a work. Other managerial functions of entrepreneurs such as organizing, staffing, directing, co-ordinating and controlling are also undertaken after planning.

**Hart** defines planning as, “the determination in advance of a line of action by which certain results are to be achieved”.

**According to Rerry**, “planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulations of proposed activities believed necessary to achieve desired results”.

Planning is a process of looking ahead. The primary object of planning is to achieve better results. It involves the selection of entrepreneur objectives and developing policies, procedures, budgets and strategies. Planning is a continuous process. A detailed planning is done in the beginning but the actual performance is reviewed and suitable change made in plans may be of many kinds, such as short range plans, medium range plan, long, standing plan, single use plan, strategic plan, administrative plan and operational plan.

The process of planning involves a number of steps:

- (i) Gathering information;
- (ii) Laying down objective;
- (iii) Developing planning premises;
- (iv) Examining alternative courses of action;
- (v) Evolution of action pattern;
- (vi) Reviewing limitation;
- (vii) Implementation of plan.

### **3. Organizing:**

Every business enterprise needs the service of a number of persons to look after its different

aspects. The entrepreneur sets up the objectives or goals to be achieved by its personnel. The energy of every individual is channelised to achieve the enterprise objectives. The function of organizing is to arrange, guide, co-ordinate, direct and control the activities of other factors of production viz. man, material, money and machines so as to accomplish the objectives of the enterprise. In the other words Koontz and O'Donnell, "organizing is that part of managing that involves establishing and intentional structure of roles for people in an enterprise to fill." Organization provides the necessary framework within which people association for the attainment of business objective.

Louis A. Allen describes organization as, "the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives". The process of organizing involves the following steps:

- (vi) to identifying the work to be perform ;
- (vii) to classify or group the work ;
- (viii) to assign these group of activities or work to individuals ;
- (ix) to delegate authority and fix responsibility and
- (x) To co-ordinate these authority- responsibility relationships of various activities.

**3. Staffing:** The function involves manning the position ceated by organization process. It's concerned with human resources of an enterprise.

**In the words of Koontz and O'Donnel,** staffing is filling, and keeping filled, position in the organisation structure through defining work- force requirement, appraising, selecting, compensating and training. Every entrepreneur has to perform the staffing function in one form or the other, in order to get things done through others.

**4. Directing:** Directing is concerned with carrying out the desired plans. It initiates organized and planned action and ensures effective performance by subordinate towards the accomplishment of group activities. In the words of George R. Terry. 'Direction is

moving to action and supplying simulative power to the group.' After planning, organizing and staffing, the entrepreneurship has to guide and supervise his subordinates.

**5. Leadership.** An entrepreneur has to issue orders and instructions and guide and counsel his subordinates in their work with a view to improve their performance and achieve enterprise objective. Leadership is the process by which by which an entrepreneur imaginatively direct/guides and influences the work of other in choosing and attaining specified goals by mediating between the individual and organization in such a manner that both will get maximum satisfaction.

**6. Communication:** Communication constitutes a very important function of entrepreneur. It is said to be the number one problem of entrepreneur today. It is established fact that entrepreneurs spend 70 to 90 percent of their working time in communicating with others. Communication is the means by which the behaviour of the subordinate is modified and change is effected in their actions.

Communication is a two way process as it involves both information and understanding. It may be written, oral, gestural. Communication is said to be formal when it follows the formal channels provided in the organization structure. It is informal communication when it does not follow the formal channels. Communication flows downward from a superior to subordinates and upwards from subordinates to a superior.

**7. Motivation:** The term motivation is derived from the word 'motive' which means a need or an emotion that prompts an individual into action. Motivation is the psychological process of creating urge among the subordinates to do certain things or behave in the desired manner. It is a very important function of entrepreneur. The importance of motivation can be realized from the fact that performance of a worker depends upon his ability and the motivation.

**8. Supervision:** It is another important managerial function of entrepreneur. After issuing, instructions, the entrepreneur has to see that the given instructions are carried out. This is the main aim of supervision. It refers to the job of overseeing subordinates at work to ensure maximum utilization of resources, to get the required and directed work done and to correct, the subordinates whenever they go wrong.

**9. Co-ordination:** It is one of the most important functions of entrepreneur. It is essential to channelise the activities of various individuals in the organization for the achievement of common goals. Every department or section is given a target to be achieved and they should concentrate only a work and should not bother about the work of other organs. It is left to the entrepreneur to see that the work of different segments is going according to pre-determined targets and corrective measures have to be taken if there is any decision. It creates a team spirit and helps in achieving goals through collective efforts.

**10. Controlling:** It can be defined as, “determining what is being accomplished, that is evaluating the performance, if necessary applying corrective measures so that the performance takes place according to plans”.

Control is essential for achieving objectives of an enterprise. The planning of various activities does not ensure automatic implementation of policies. Control is the process which enables entrepreneur to get its policies implemented and take corrective actions if performance is not according to the pre-determined standards. Control is a line function and entrepreneur assesses the performance of their subordinates. The main purpose of control is to see that the activity is achieving the desired results.

#### **D. Commercial functions**

**1. Production:** Production function is a key function of an entrepreneur. The activities of production are independent of the size of the undertaking. In a small concern one person may be undertaking this function whereas in large organisation this activity may be undertaken by various individual or separate teams.

Production is the creation of goods and services. In relation to goods, production is the fabrication of a physical object through the use of men, materials and equipment, whereas, with reference to services, production is the discharge of a function which has some utility. This interpretation of production activity is very broad one and it does not coincide with the commonly used practice of associating it with manufacturing process only. Production function consists of manufacturing, ancillary and advisory activities.

**2. Finance:** Finance function is the most important of all enterprises. It remains a focus of all business activities. It is not possible to substitute or eliminate this function because the

enterprise fails in the absence of finance. The need for money is continuous. It starts with the setting up of an enterprise and remains at all times. The development and expansion of enterprise rather needs more commitment for funds. The funds will have to be raised from various sources. The sources will be selected in relation to the implications attached with them. The success of finance function will depend upon its planning. The receiving of money is not enough, its utilization is more important.

**3. Marketing:** Marketing is primarily concerned with the movement of goods and services from the producer to the ultimate consumer. It creates place, time and possession utilities. Marketing is a concept, a point of view and a way of thinking. It is directed towards the satisfaction of consumer wants. It begins and ends with customers. Marketing plays a significant role in promoting the well - being of all business enterprise. In fact the success of any organisation depends upon its successful marketing. Marketing is necessary not only to a producer of goods and services, but also for a customer, to a government and society at large.

**4. Personnel:** This function is concerned with people at work and with their relationship with in an organisation. It aims to bring together and develop into an effective organisation of men and women who make up enterprise. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a good working force in the organisation. The enterprise should endeavour to make proper utilization of human resources.

**5. Accounting:** Accounting is defined as a systematic, recording of entrepreneurial transactions in order to get a true and fair view of the results of the operations of the enterprise and the financial position of an enterprise. It includes

- i) Keeping up - to - date
- ii) Developing an efficient system of communication.
- iii) Keeping and maintaining record.
- iv) Developing time and labour saving devices in accounting.

**6. Supervision:** after issuing instruction, the women entrepreneurs has to see that the given instruction are carried out. This is the aim of supervision. Supervision refers to the job overseeing subordinates at work to ensure maximum use of resource, to get the required and directed work done and to correct the subordinates whenever they go wrong.

### **1.6.3 Problems faced by Women Entrepreneurs**

Women entrepreneurs face many problems in their effort to develop their enterprises.

**The main problem faced by the women entrepreneurs are as followed:**

**1. Shortage of finance:** Women entrepreneurs always suffer from inadequate financial resource and working capital. The complicated procedure of bank loans also creates lot of problem in getting the required finance. Women entrepreneurs even face problem in getting requisite working capital for financial day-to-day business activity. Women entrepreneurs have to depend upon their personal saving and loans from family friends most of the women entrepreneurs fail due to lack of proper financing facilities, because finance is the life blood of every business activity.

**2. Marketing Problems:** Women entrepreneurs often depend upon the middlemen for marketing their products. They exploit the women entrepreneur. Women entrepreneur also find it difficult to study the market trend. A lot of money is needed for advertisement in these days of stiff competition from male entrepreneur. Women entrepreneur also lacks energy and extra efforts needed to be investing and to win the confidence of the customers and popularize the products.

**3. Shortage of raw materials:** The shortage of required raw materials is also one of the big problems faced by women entrepreneur. Women entrepreneur find it difficult to procure the required raw material and other necessary inputs for production in sufficient quantity and quality.

**4. Stiff competition:** Women entrepreneur has to face severe competition from organized industries and male entrepreneur having vast experience in globalize market.

**5. Limited managerial ability:** Women entrepreneur may not be expert in each and every function of enterprise. She will not be able to devote sufficient time of all the activities.

**6. High cost of production:** The high cost of production is another problem which undermines the efficiency and restricts the development of women entrepreneurs. It is necessary to increase the efficiency, expand productive capacity to reduce the cost of production.

**7. Lack of entrepreneurial aptitude:** One of the biggest problem of women is lack of entrepreneurial aptitude. They have no entrepreneurial bent of mind. The basic characteristics of the entrepreneurs such as innovation, risk bearing, etc. are absent in women entrepreneur.

**8. Low risk taking ability:** Women entrepreneur suffers from problem of low risk taking ability as compared to male counterparts. Inferiority, complex, unplanned growth, lack of infrastructure, hesitation in taking quick decision also increases the rate of risk and chances of loss.

**9. Family responsibilities:** One of the main duties of the women in India is to look after the children and other family members. A very little time is left for the business activities. A married entrepreneur has to make the perfect balance between domestic and business activities. The women entrepreneur cannot succeed without the support and approval of husband. Their success in this regard also depends upon the supportive husband and family.

**10. Social attitudes:** One of the biggest problems of women entrepreneur is the social attitudes in which she has to live and work. There is discrimination of women in India despite the constitutional equality. Women do not get equal treatment in male dominated Indian society and male ego puts barrier in their success.

**11. Lack of education:** The education level among women in India is very low. Majority of women are not aware about the technological developments, marketing knowledge, etc. due to lack of education, illiteracy further creates problems in setting up and smooth running of enterprises.

**12. Lack of entrepreneurial training:** Large number of women has no proper and sufficient technical and professional training to set up a new venture.

**13. Legal formalities:** Women entrepreneurs find it difficult in complying with various legal formalities in obtaining licenses.

**14. Traveling:** Women entrepreneurs cannot travel from one place to another as freely as men do. Women have some peculiar problems like staying out in the nights at distant places, etc.

#### **1.6.4 Measures to solve the problem of Women Entrepreneurs**

The following measures may be adopted to solve the problems faced by women entrepreneurs in India are as follows:

**1. Creation of finance cells:** The commercial banks and other financial institutions must create a special cell for providing easy finance to women entrepreneurs.

**2. Concessional rates of interest:** The women entrepreneurs should be provided finance at concessional rates of interest and at easy repayment basis.

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

**4. Changing the social attitudes:** It is essential to change the negative social attitude towards women. The parents need to be made aware of the potentiality of the girls and their role in the family and society.

**5. Providing training facilities:** Training is necessary for the growth of entrepreneurship. Training facilities help the women entrepreneurs to undertake the venture successfully as it provides required skills and experience to start and run the enterprise. To attract the more and more women entrepreneurs, additional facilities like stipend, transport facilities etc; can be offered.

**6. Setting up marketing co-operative:** Proper encouragement and assistance should be provided to women entrepreneurs for setting up marketing co-operatives. These co-

operatives shall help in getting the inputs at reasonable rate and they are helpful in selling their products at profitable prices. Hence, middlemen can be avoided and women entrepreneurs to derive the benefits of enterprise.

Women have the potential to set up and manage business enterprises of their own successfully. But they need guidance, encouragement and support. Government and public enterprises should serve the women entrepreneurs on priority basis. Women can join the main stream of national economy and contribute to the country's economic development with the help of family members and the government.

### **1.6.5 Steps Taken by Government to Develop Women Entrepreneurs**

The growth and development of women entrepreneurs required to be accelerated because entrepreneurial development is not possible without the participation of women. Therefore, a congenial environment is need to be created to enable women to participate activity in the entrepreneurial is activities. There is a need of government, non- government, promoting and regulatory agencies to come. Forward and play the supportive role in promoting the women entrepreneur in India.

The Government of India has also formulated various training and development cum employment generation programmers for the women to start their ventures.

These programmes are as follows:

1. **Steps taken in seventh five- year plan:** In the seventh five-year plan, a special chapter on the 'Integration of women in Development' was introduced by government with following suggestion:

(i) **Specific target group:** It was suggested to treat women as a specific target groups in all major development programmes of the country.

(ii) **Arranging training facilities:** It is also suggested in the chapter to devise and diversify vocational training facilities for women to suit their changing needs and skills.

(iii) **Developing new equipments:** Efforts should be made to increase their efficiency and productivity through appropriate technologies, equipments and practices.

(iv) **Marketing assistance:** It was suggested to provide the required assistance for marketing the products produced by women entrepreneurs.

**1. Steps taken by Government during Eighth Five-Year Plan:** The Government of India devised special programmes to increase employment and income-generating activities for women in rural areas.

The following plans were launched during the Eight-Five Year Plan:

### **Entrepreneurship Development Programmes**

(i) Prime Minister Rojgar Yojana (PMRY) and EDP's were introduced to develop entrepreneurial qualities among rural women.

(ii) Women in agriculture schemes are introduced to train women farmers having small and marginal holdings in agriculture and allied activities.

(ii) To generate more employment opportunities for women KVIC took special measures in remote areas.

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

(v) Several other schemes like Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM) etc. were started to alleviate poverty, 30-40 % and reservation is provided to women under these schemes.

**3. Steps taken by government during ninth five year plan:** Economic development and growth is not achieved fully without the development of women entrepreneurs. The Government of India has introduced the following schemes for promoting women entrepreneurship because the future of small scale industries depends upon the women entrepreneurs:

(a) Trade Related Entrepreneurship Assistance and Development (TREAD) scheme was launched by ministry of small industries to develop women entrepreneurs in rural, semi-urban and urban areas by developing entrepreneurship qualities.

(b) Women component plan, a special strategy adopted by government to provide assistance to women entrepreneurs.

(c) Swaran Jayanti Hram Swarozgar Yojana and Swaran Jayanti Sehkari Rozgar Yojana (SJSRY) were introduced by government to provide reservations for women and encouraging them to start their ventures.

(d) A new scheme named women development corporations were introduced by government to help women entrepreneurs in arranging credit and marketing facilities.

(e) State Industrial and Development Bank of India (SIDBI) has introduced following schemes to assist the women entrepreneurs.

These schemes are as under:

- (i) Mahila udyam nidhi
- (ii) Micro credit scheme for women
- (iii) Mahila vikas nidhi
- (iv) Women entrepreneurial development programmes
- (v) Marketing development fund for women

**4. Consortium of women entrepreneurs of India:** It provides a platform to assist the women entrepreneurs to develop new, creative and innovative techniques of production, finance and marketing. There are different bodies such as NGO's, voluntary organizations, self help groups, institutions and individual enterprises from rural and urban areas which collectively help the women entrepreneurs in their activities.

**5. Training programmes:** The following training schemes especially for the self employment of women are introduced by Government:

- (i) Support for training and the employment introduced by government
- (ii) Development of Women and Children in Rural Areas (DWCRA)
- (iii) Small Industry Service Institutes (SISI's)

- (iv) State Financial Corporation
- (v) National Small Industries Corporations
- (vi) District Industries Centers (DIC's)

**6. Mahila Vikas Nidhi:** SIDBI has developed this fund for the entrepreneurial development of women especially in rural areas. Under mahila vikas nidhi grants loan to women are given to start their venture in the fields like spinning, weaving, knitting, embroidery product, printing, handlooms, handicrafts, bamboo products, etc.

**7. Rashtriya Mahila Kosh:** In 1993, rashtriya mahila kosh was set up to grant micro credit to poor women at reasonable rates of interest with very low transaction costs and simple procedures.

4. The second international conference of women entrepreneurs organized by national alliance of young entrepreneurs in 1981 in Delhi also adopted certain declarations involving women participation industry.

5. The sixth five year plan proposed for promoting female employment in women owned industries.

#### **1.6.6 Success Stories of Women Entrepreneurs**

Today we find women in different types of industries, traditional, such as engineering, electronics, readymade garments, fabrics, eatables, doll making, poultry, soap, drugs, textile designing, canning, knitting, jewellery design, solar cooker, etc. What motivates women to aspire for career in business is an interesting thing to explore and analysis. According to McClelland and Winter, "Motivation is a critical factor that leads one towards entrepreneurship". The challenge and adventure to do something new, liking for business and wanting to have an independent occupation are some of the attractive leverages for women to be a successful entrepreneur. These factors indicate a relatively deeper commitment to entrepreneurial profession on the part of the entrepreneur. Responsibility thrust, due to death or incapacitation of a near relation, tax benefit for self and for relations are the push factors. In addition, special qualifications attained for running a concern, identifying the demand from the market, external motivation, employment to needy and

destitute to set up an ancillary unit, business already in the family are some of the factors which gave stimulus to women entrepreneurs to start business.

### **Successful women entrepreneurs**

Although the list of successful women entrepreneurs is quite long, selected representative's women entrepreneurs, Smt. Sumati Moraji of Shipping Corporation has been as beacon to women entrepreneurs. Smt. Shareyu Daftary of Automobile radiators, Smt. Yamutai Kirloskar of Mahila Udyog Limited, Smt. Radanike Pradtan of plastic industries, Smt Gogate for drugs, Smt. Neena Malhotra in Export, Smt. Weheeda Rehman in fast food all stand out as successful women entrepreneurs. Other outstanding are Smt. Priya Khanna, Smt. Raman Suri, Smt. Prabha Thakka and Smt. Sunanda Pant.

What is more, since the inception of the national award to small entrepreneurs instituted in 1983, 10 women entrepreneurs have received special recognition awards. They have attributed their success in their enterprise to hard work, perseverance, dedication, devotion, determination and confidence in themselves. However, there are still striving to get their enterprises established. Behind every successful woman entrepreneurs there is a man and vice versa.

### **A Success Story**

She certainly has been the most powerful women of Indian origin living in the United States. Roman Malkani was listed by the respected Washington magazine as one of the 100 most powerful women living in the US capital, along with the likes of Jeane Kirkpatrick, Carla Hills and Elizabeth Dole. And more importantly, her success has been in an area which has been in area which even in the US has traditionally been male-dominated: of specialized high specialized high technology communication systems.

Malkani left India in 1967 when her father, a professor of engineering at Roorke University, went on Fulbright scholarship to the University of Virginia. In 1979, father and daughter, who by then had a master's degree in computers founded Information system and Network corporation (ISN). Roman, who look over full charge a year later, has since turned the company into the largest woman-owned US government Contractor.

With a revenue of over \$60 million (Rs.105.21 crore) and an employee strength of 580, ISN was listed by the chic US women's monthly Savvy as the 43 largest, female owned and run company in that country, and the only one in the top 60 involved in manufacturing telecommunication system.

**Lakshmi G. Menon**, 47, could not resist a challenger. When the top slot at Madras based Hindustan Teleprinters Limited (HTL) fell vacant she applied for it. After an interview with the Public Enterprises Board, she was selected to become the first even women chief executive of a public section organization.

'I am an electronic person. I love to be in the thick of things, planning specifying, installing and manufacturing systems in telecommunications arena,' she said.

The electronics bug had bit her as a student at Trivandrum University. On graduating with a B.Sc. in 1961, she headed for Madras Institute of Technology, and in 1964 acquired a post-graduate diploma in electronic engineering.

### **Shahnaz Hussain- A Successful women entrepreneur**

Shahnaz Hussain a well known name in herbal cosmetics hails from a conservative muslim family. She is pioneer in herbal cosmetics not only in India but in the world over. She has been acclaimed to be the "world's greatest women entrepreneur" due to her extraordinary contribution to herbal market. She has also grabbed 80% of domestic market and owns multi chain stores in developed countries like Japan, US, England and so on. Married at very young age of 15 years Shahnaz Hussain has an urge to become more than a mere housewife and always used to look forward to do something never done by any women. Her dazzling office in Greater kailash in New Delhi appraises the visitor of her confident personality.

While studying cosmetics chemistry from abroad, she explored into age old Indian ayurvedic system of herbs through which she could research, discover and develop herbal care and medicines exploiting the herbal market commercially. Heavily pricing her product, she launched her one room shop with a mere investment of Rs.3500. people rushed to buy her facial cream which was exorbitant as compared to a similar product already available in next market. She personally used to fly to different cities of the country and lectured and

publicised ayurveda, her marketing strategy was a unique one pursuing more clients than she could handle. Today, her products are being exported to over 130 countries and she attributes her success to her destination. Completing more than two and half decades in this business, she is expanding her empire quoting that failure word doesn't exist in her dictionary and she never stops trying. Quoting Shahnaz Hussain, "In life you get what you negotiate. Any woman has the capacity to do what I did it doesn't matter what you want, what makes is how badly you do it".

### **Case studies: East west Export Corporation**

Mrs. Kusum Gupta is a housewife. Her husband had spent a number of years in Fiji in senior positions. Mrs. Kusum Gupta had decided to make use of her personal relation in Fiji and go in for exports of greeting cards for various Indian festivals such as diwali greeting cards, calenders displaying of hindu gods and goddesses, brass items, and khurja pottery items.

Her success in exports to Fiji boosted her confidence to expand her exports to other countries also. Her son had settled down in New Zealand. She started export of handicrafts to New Zealand with instant success. Her daughter and son-in-law were in Malaysia and she decided to enter the market there also.

However, her major business force has been her personal contacts. She keeps going abroad frequently to renew her contacts and to promote for exports. She is full of self-confidence and plans to expand for exports on a much bigger scale.

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## **1.7 SUMMARY**

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To be successful in sustainable business practices often requires entrepreneurship and innovation. This chapter provides an overview of entrepreneurship and innovation as it relates to sustainable business. The discussion is most relevant to sustainable businesses focused on offering new products and services in response to societal concerns. The importance of entrepreneurship and innovation also applies to companies that change how they produce products and services. The latter companies can use innovative practices and entrepreneurship to establish their brand name and to be market leaders in doing things that create shared value for society and their companies and also, over time, contribute to changes in practices in their industry.

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## 1.8 GLOSSARY

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- **Entrepreneur:** Someone who exercises initiative by organizing a venture to take benefit of an opportunity and, as the decision maker, decides what, how, and how much of a good or service will be produced. The entrepreneur is usually a sole proprietor, a partner, or the one who owns the majority of shares in an incorporated venture.
- **Leaders:** A person or thing that holds a dominant or superior position within its field, and is able to exercise a high degree of control or influence over others.
- **Manager:** An individual who is in charge of a certain group of tasks, or a certain subset of a company. A manager often has a staff of people who report to him or her.
- **Innovator:** The innovators were the first to use the new strategy and we allowed them take on the risk and then we piggy backed with them later.
- **Entrepreneurship:** The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit.

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## 1.9 SELFASSESSMENT QUESTIONS

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1. What are the various promotional functions related to women entrepreneurs and the steps taken by the government for providing training and development to women entrepreneurs.

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2. “Entrepreneurs are made, not born”. Do you agree?

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3. What do you mean by entrepreneurship? Why is it important for any economy?

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**1.10 LESSON END EXERCISE**

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1. "Is entrepreneur a package of qualities?" Discuss

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2. Write a detailed note on the entrepreneurial development in other countries of the world.

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## 1.11 SUGGESTED READINGS

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1. **Desai, Vasant:** “Small Scale Industries and Entrepreneurship”  
Himalayan Publishing House
2. **Desai, Vasant:** “Management of small scale industries”, Himalayan Publications.
3. **Duries, Richard:** “Entrepreneurship in India”, Special Reference to small scale industry.
4. **Desai, Vasant:** “Organisation and Management of Small Scale Industries”, Himalayan Publications.
5. **Khanka, S.S:** “Entrepreneurial Development.” Sultan Chand and Company Ltd.
6. **Arora, Renu and S.K. Sood:** “Fundamental of Entrepreneurship and small scale business”.

**ENTREPRENEURNIAL BEHAVIOUR AND ENTREPRENEURNIAL  
DEVELOPMENT PROGRAMME**

**STRUCTURE**

2.1 Introduction

2.2 Objectives

2.3 Meaning of Entrepreneurial Behaviour

2.3.1 Features of Entrepreneurial Behaviour

2.3.2 Approaches to the study of Entrepreneurial Behaviour

2.3.3 Models of Entrepreneurial Behaviour

2.3.4 Role & Importance of Entrepreneurial Behaviour

2.4 Reasons for Promoting Entrepreneurs

2.5 Difference between Entrepreneur and Intrapreneur

2.6 Theories of Motivation

2.7 Meaning of EDP

2.7.1 Features of EDP

2.7.2 Objectives of EDP

2.7.3 Achievements of EDP

2.7.4 Steps of EDP Process

2.7.5 Evaluation of EDP

2.7.6 Obstacles in the smooth conduct of EDP's

2.7.7 Suggestions to make of EDP's successful

2.8 Role of State in Fostering Entrepreneurial Development

2.9 Summary

2.10 Glossary

2.11 Self Assessment Questions

2.12 Lesson End Exercise

2.10 Suggested Readings

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## **2.1 INTRODUCTION**

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Human behaviour in an enterprise is generally concerned with the thoughts, feelings, emotions and actions of the people working in it. To understand any individual and his behavior is in itself a challenge, but to understand group behaviour in an enterprise is very complex entrepreneurial task. It is rightly said that success of an enterprise is very complex entrepreneurial task. The success of any enterprise primarily depends upon the efficiency and the effectiveness of the entrepreneur and the effectiveness of entrepreneurs depends primarily upon its human skills and how well he understands the needs and desires of the people working in the enterprise. The entrepreneurs now understand that to make their enterprise more effective, they have to understand and predict the human behaviour in the enterprise.

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## **2.2 OBJECTIVES**

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After going through this lesson, you should be able to:

- Explain the entrepreneurial behaviour and its characteristics

- Describe Maslow's Need Hierarchy Theory
- Understand the role of NSIC and SSIC in entrepreneurial development
- Discuss role of state in fostering entrepreneurial development

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## **2.3 MEANING OF ENTREPRENEURIAL BEHAVIOUR**

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Entrepreneurial behaviour is directly concerned with the understanding prediction and control of human behaviour in enterprise. It is an area of the study that investigates the impact that individuals, groups and structure have on behaviour within the enterprise.

### **Definitions**

**According to Callahan**, "Entrepreneurial behaviour is a subset of entrepreneurial activities concerned with understanding, predicting and influencing individual behaviour the in entrepreneurial settings"

**J. Alday** has opined that entrepreneurial behaviour, "Is a branch of the social sciences that seeks to build theories that can be applied to predicting, understanding and controlling behaviour in work enterprise"

**Keith Devis defined** "Entrepreneurial behaviour is an academic discipline concerned with understanding and describing human behaviour in an entrepreneurial environment. It seeks to shed light on the whole complex human factor in enterprises by identifying causes and effects of that behaviour".

**Stephen P. Robbins**, "Entrepreneurial behaviour is a field of study that investigates the impact that individuals, groups and structure have on behaviour within enterprises for the purpose of applying such knowledge towards improving an enterprises effectiveness"

In the words of **Fred Luthans**, "Entrepreneurial behaviour is directly concerned with the understanding prediction and control of human behaviour in enterprise".

### **2.3.1 Features of Entrepreneurial Behaviour**

The features of entrepreneurial behaviour are as follows:

1. **Behavioural approach to management:** Entrepreneurial behaviour represents the behavioural approach of management. It emerged as a distinct field of study because of the importance of human behaviour in enterprise.
2. **Cause and effect relationship:** Human behaviour is generally taken in terms of cause and effect relationship. It provides generalizations that entrepreneurs can use to anticipate the effect of certain activities on human behaviour.
3. **Branch of social sciences:** Entrepreneurial behaviour is greatly influenced by other social sciences viz. psychology, sociology and anthropology. It draws a rich array of research from these disciplines.
4. **Three levels of analysis:** Entrepreneurial behaviour is the study of three levels of analysis i.e., individual behaviour, inter - individual behaviour and the behaviour of organizations.
5. **A science as well as an art:** Entrepreneurial behaviour is a science as well as an art. The systematic knowledge about human behaviour is a science and the application of behavioural knowledge and skills is an art. Entrepreneurial behaviour is not an exact science because it cannot exactly predict the behaviour of people in it.
6. **A body of theory, research and application:** Entrepreneurial behaviour consists of a body of theory, research and application which helps in understanding the human behaviour in organization. All these techniques help the entrepreneur to solve human problems in organization.
7. **Beneficial to both enterprises and individuals:** Entrepreneurial behaviour is useful and beneficial to both enterprise and individuals. A reasonable climate is created so that employees may get much needed satisfaction and the entrepreneur may attain its objectives.
8. **Rational thinking:** Entrepreneurial behaviour provides a rational thinking about people and their behaviour. The major aim of Entrepreneurial behaviour is to explain and predict human behaviour in enterprise.

**9. Human part of enterprise:** Entrepreneurial behaviour is directly related with the human side of enterprise. It focuses on people, their desires and needs. It is the systematic study of the action and attitudes of people working in enterprise.

**10. Change oriented:** Entrepreneurial behaviour is a change oriented process. It points to the need for change in human behavior with change in technology and other fields of environment.

### **2.3.2 Approaches to the study of Entrepreneurial Behaviour**

According to this approach human resources are the central force in an entrepreneurial unit. The growth of human resources will directly affect the success of the enterprises. Human resource approach requires a change in the role of entrepreneurs by providing active support (threading them part and parcel to the unit entrepreneurs) opportunities and encouragement to workers to work under loose supervision. According to contingency approach there is no single way to handle the human resources under all conditions the behaviour or method successful in one situation may fall in another situation. Entrepreneurial structure and the process of entrepreneurship are influenced by both external and internal environment of an enterprise entrepreneurial behaviour differ in different situations depending upon the individual and group behavior of unit, nature of work technology etc. The main task of entrepreneur is to find out which method will best contribute to achieve the entrepreneurialism goals in a particular situation, under particular time. The entrepreneur will have to analyses each situation prior to action and different entrepreneurial practices and styles are needed for effective management. Productivity approach productivity means the numerical value of the ratio of output to input. Higher the value of this ratio, greater is the efficiency and effectiveness of the entrepreneur. The traditional concept of productivity was concerned with economic inputs and output only but now-a-days human and social inputs and outputs are equally important. Productivity, a significant part of entrepreneurial behaviour decisions, is recognized and discussed extensively. These decisions relate to human, social and economic.

**Systems approach:** according to systems approach, an enterprise is a powerful system with several subsystems which are highly and closely interconnected. Any action taken to solve the problem in one subsystem will have its effect on the other subsystems also, thus

this approach gives the entrepreneur a way of looking at the enterprise as a whole group, and the whole social system organisation are termed as complex system comprising of interrelated and interlocking system. The public and government have been included keeping in view the relationship between organization and external environment. The other subsystem is an integral part of overall organization.

### **2.3.3 Models of Entrepreneurial Behaviour**

**a. Autocratic model:** The basis of this model is the power of the boss. **Maxweber** defined power as, “The probability that one actor, with in a social relationship, will be in a position to carry out his own will despite resistance”. **Walter nord** defined power as, “the ability to influence flow of available energy and resources towards certain goals as opposed to other goals. Power is assumed to be exercised only when these goals are at least partially in conflict with each other”.

**The essentials features of this model are as follows:**

- i) Enterprise with an autocratic environment is authority oriented. The entrepreneur believes that he is the best judge to determine what is better for the health of the both the enterprise and its participants. It assumes that the employees have to be directed, persuaded and pushed into performance. Entrepreneur does the thinking and employees obey the orders.
- ii) Under autocratic model, the employees orientation is obedience to the boss, they need not be respectful to him. The bosses have all power to hire fire and inspire employees. The employees depend upon the boss and are paid minimum wages for minimum performance.
- iii) The autocratic model has been successful in some situations where the workers are actually lazy and have a tendency to shirk work. It is also required in the situations where the work to be done is time bound.
- iv) The leadership in an autocratic model is negative.

**2. The custodial model:** This model overcomes the shortcomings of the autocratic model. The insecurity and frustration felt by the workers under the autocratic model

sometimes led to aggression and frustration. There was a need to develop a model which will improve the employer - employee relating. The custodial model was used by the progressive entrepreneurs.

**Some of the important features of this model are as explained below.**

- i) The success of this model depends upon the economic resources because this model emphasizes the economic rewards and benefits.
- ii) The employees depend upon unit rather than their boss. If the organization has got good welfare and development programme for the employees, they cannot afford to leave the organization
- iii) Under this model, the employees are satisfied and happy and they are not strongly motivated. So they give only passive cooperation.
- iv) The main benefit of this model is to bring security and satisfaction to the employees.

**3. The supportive model:** The supportive model has originated from the principles of supportive relationships. According to Rensis Likert, “The leadership a must be such as to ensure a maximum probability that in all interactions and all relationships with the organization, each member will, in the light of his background, values and expectations, view the experience as supportive, and one which builds and maintains his sense of personal worth and importance”.

**The main features of this model are as follows:**

- i) The supportive model depends on leadership instead of power or money. Entrepreneur as a good leader, try to create a favourable climate in unit in which the employees are helped to grow to the greatest capacities in compliance with the goals of the enterprise.
- ii) The leader assumes that the worker will take responsibility, make their contributions and improve themselves, if given a chance. It is assumed that the workers are not lazy and work shirkers by nature. If properly motivated, they can be self directed and creative to the organization.

- iii) It should be duty of the entrepreneur to support the employee's job performance.
- iv) This model takes care of the psychological needs of the employees in addition to their subsistence and security needs.

**4. The collegial model:** The collegial model is an extension of the supportive model. The dictionary meaning of the collegial is a body of persons having a common purpose. This model is based upon the partnership between employees and the entrepreneur.

The main features of this model are as follows:

- i) This model creates a favorable climate in the unit as the workers feel that they are the partners in the enterprise. They don't treat the entrepreneurs as their bosses but joint contributors. Both the entrepreneurs and workers accept and respect each other.
- ii) This model inculcates the team spirit in an unit. The workers accept responsibilities. This helps in developing a system of self discipline in the organization.
- iii) In this model, the workers have job satisfaction, job involvement, job commitment.

**5. Other models:** Some models of organizational behavior can be classified by a number of approaches. A few of these models are as explained below:

- i) **Normative model:** The normative models seek to find out that what should be done to produce optimum results. These models are connected with the determinations of optimum actions.
- ii) **Empirical model:** The empirical models describe the activities that the employees actually perform. This model becomes an integral part of entrepreneurial behaviour because entrepreneurial behaviour is concerned with what is actually taking place in the organization and how do people actually behave.

### **2.3.4 Role & Importance of Entrepreneurial Behaviour**

The role of entrepreneurial behaviour is as under:

- 1. Understanding human behaviour:** The main function of an enterprise is to understand the human behaviour. Entrepreneurial behaviour plays an important role to

develop full knowledge about the behaviour of employees. Entrepreneur needs information about human behaviour for the achievement of entrepreneurial goals and for day to day functioning.

**2. Predicting human behaviour:** Entrepreneurial behaviour also helps in predicting the future employee behaviour. Entrepreneurs would be able to predict which employees might be dedicated or which might be disruptive. This would allow them to take preventive actions.

**3. Control and direct behaviour:** Entrepreneurial behaviour assists entrepreneur to direct and control the human behaviour to build successful enterprise. Entrepreneur needs to be able to improve results through the controlled activities of the employees.

**4. Entrepreneurial effectiveness:** It can be ensured through entrepreneurial behaviour. It helps in better use of raw materials and other resources to improve the quality of work in the enterprise.

**5. Motivation:** An entrepreneur has to get things done through employees. Entrepreneurial behaviour helps the entrepreneurs to identify the needs and requirements of the employees and other processes of the organization.

**6. Better human relations:** Entrepreneurial behaviour also helps in maintaining cordial human relations in the enterprise. It assists in finding the causes of industrial conflicts.

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## **2.4 REASONS FOR PROMOTING ENTREPRENEURS**

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There are various reasons for promoting entrepreneurs which are as follows:

**1. Profit earning:** Every enterprise is started to earn profits. Profits the basic incentive to entrepreneurship. Profits are required to face various business uncertainties like trade cycle, fluctuations in money markets. Entrepreneurship needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages and the entrepreneur needs money for reinvesting. All these demands and requirements will be met only when some profits are made. The profit motive does not mean that the entrepreneur should start exploiting consumers by charging higher prices or selling low quality goods.

**2. Production of goods:** The profit can be earned only when production of goods takes place. The next objective is to produce more goods for selling them to the consumers for a price. The entrepreneurs estimate the demands for goods and produce accordingly. The tastes, preferences and paying capacity of consumers must be given due consideration while producing goods. An entrepreneur creates form, place and time utilities and meets the requirements of the society.

**3. Creating markets:** The aim of the entrepreneur is to sell products in markets. Marketing consists of those efforts which affect the transfers. In ownership of goods from entrepreneur to consumers. Marketing covers all those activities which relate to the creation of time, place and possession utility. The entrepreneur searches for new consumers to increase his sales. An effort is also made to retain old consumers by supplying them better quality goods at reasonable prices. The new markets are also exploited to keep a steady demand for good. An enterprise cannot exist without finding out new markets for products.

**4. Technological improvement:** An entrepreneur should always try to use new methods of production. In the world of competition everybody tries to sell its products by offering goods quality products at lower prices. This is only possible when latest technology is used for producing goods. Which help to increase production and reduce costs? The entrepreneur should try to devise new methods so that he may keep pace with the changing business world.

**5. Welfare of employees:** The employees should be treated as human beings. The employees of an enterprise helps in increasing the profitability and they should also be given a due share in profits in the forms of bonus, increased allowances or spending money on their welfare. The worker should be rewarded for their hard work. The entrepreneur should look after the welfare of his workers by providing physical comforts, materials incentives, appreciation, dignity of labour and better working condition which will motivate the worker to work dedicatedly with devotion.

**6. Satisfaction of consumer:** The consumer should be provided better quality goods at reasonable prices. The tastes, liking and requirement of the consumer should be given due weightage. The product is meant for consumer and their satisfaction should be the main objective of the entrepreneurship.

- 7. Availability of goods:** The entrepreneurship should ensure the supply of goods to meet the requirement of the society. The entrepreneurship should estimate the total demand for various commodities and the production accordingly. The governments are also undertaking the work of co-coordinating entrepreneurial activities according to the society. Better quality goods should be providing to society at reasonable rates.
- 8. Supply of quality goods:** The supply of quality goods and services to consumer at reasonable price is the responsibility of the entrepreneur. The entrepreneur should aim at consumer satisfaction. The supply of inferior quality, unusable or harmful to health will be against business ethics. An enterprise cannot flourish in the long run if it ignores the interests of consumer and provide them with quality goods at reasonable prices.
- 9. Creation of more employment:** The entrepreneur can help the society by creating more job opportunities. An entrepreneur provides more job to unemployed or setting up of new units.
- 10. Utilizing national resources properly:** The entrepreneur should put the scarce national resources to the best possible use. Wastage of money material men etc. will not only be the loss of the enterprise but it will be a national loss. The use of improved technological methods for the production of goods can be helpful in raising production and reducing costs.
- 11. Survival:** The first objective of the enterprise is survival. It has to ensure that only those activities are taken up which are beneficial to the society. It should try to create demand for its products so that it is able to produce profits. Various factors of production are paid out for profits. A losing concern cannot survive for long.
- 12. Growth:** A business enterprise may be compared to human being. As a human body grows through various stages, i.e., from infancy to childhood, from childhood to adolescence, from adolescence to adulthood and from to maturity, an enterprise unit also passes through various phases during its existence. An enterprise unit tries to utilize its resource properly so that it is able to plough back its profits for further expansion and diversification. A stagnant business will not be able to face changing economic, political and social environment. Every business house aims at its proper growth. A number of plans and policies are framed to facilitate future growth of every units.

**13. Earn recognition and prestige:** A business enterprise always aims to get recognition and good will. This is possible only if services them well. It should have good report with the suppliers and dealers by keeping proper schedules of payment and supply of good. The consumer should be supplied good quality products at reasonable prices. The payments of various taxes, etc. to the government should be timely. All these acts will earn goodwill for the enterprises and its prestige will enhance. A properly run units may become indispensable for various sections of society.

**14. Helping national efforts.** An enterprise aims at helping the national efforts of improving economic position of the society. The entrepreneur should enter those fields of industrial activity which remained neglected so far. Entrepreneur should set up new units in backward and underdeveloped areas so that people living there get employment opportunities and resources available there are fully utilized. It is the duty of the business entrepreneurs to produce goods on the basis and not on the basis of needs and not on the basis of profit margins.

**15. Development of small entrepreneurs.** Every country needs trained and skilled personnel for the development of its industrial. Business enterprise can provide technical knowledge and training to their employees. This help in skill formation for the country growth and development. In India, some business houses have set up engineering and technology institutes which supply trained personnel to the nation.

**16. National self dependence and export development:** Enterprise can play an important role in making the country self reliant. It should substitute all those goods which are imported. Efforts should also be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange; a self reliant nation has more prestige in international community.

**17. Development of skilled personnel:** Every country needs trained and skilled personnel for the development of its industry. Business enterprise can provide technical knowledge and training to their employees. This will help in skills houses have set up engineering and technology institutes with supplied trained personnel to the nation.

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## **2.5 DIFFERENCE BETWEEN ENTREPRENEUR AND INTRAPRENEUR**

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Entrepreneurship plays a dominant role in the growth and development of an economy. It can solve the problems like unemployment, concentration of economic power in few hands, imbalanced regional development, increasing wastages of youth power in destructive activities. In entrepreneurship, an entrepreneur is an innovator, and innovator is one of the person who carries new combinations of means of production such as introduction of new goods, method of production, new market, new source of raw materials and new organization of any industry. The reasons must be there for promoting entrepreneurs like profit earning, production of goods, creating markets, growth, survival, etc.

The term 'Intrapreneur' was coined in the United States of America in the late seventies. Many bright executives in big corporations started leaving their jobs because of their entrepreneurial urge and drive. They preferred to have many fascinating and lucrative jobs and started their own enterprise. Their success as entrepreneurs posed a threat to the corporation they left a few years ago. This type of entrepreneurs came to be known as 'Intrapreneurs'. **Gifford pinchot** defined Intrapreneurs as the persons who resigned from their well paid executive positions to launch their own ventures. This brain drain had to be stopped as industries were losing their highly competent and capable executives. Gifford devised the way by which such executive could be retained in the industry and their entrepreneurial urge was also satisfied by their bosses. So a system was devised whereby such executives would operate as entrepreneurs with full independence and autonomy but within the organisation. They were allowed to introduce new products, take their own decisions and put their ideas into practice. Such executive turned entrepreneurs were encouraged to survive in an organisation. They were adequately sponsored and their entrepreneurial spark was kept alive. Their turnover was also reduced. Such people are Intrapreneur.

Entrepreneurs with their innovative and dedicated efforts are perceived as valuable assets by the organisations. The new Intrapreneur serves as champions to others in the organisation.

### **Difference between an Entrepreneur and Intrapreneur**

<b>Entrepreneur</b>	<b>Intrapreneur</b>
1. Entrepreneur is independent	1. Intrapreneur is semi-independent.
2. Entrepreneur raises their fund on his own initiative.	2. Intrapreneur depends upon the industry in which he works for getting the finance.
3. Entrepreneur takes the profit of the business.	3. Intrapreneur does not take profit out of innovations but he can be provided with a variety of prerequisite for their innovation.
4. Entrepreneur bears the full risk of his business	4. Intrapreneur bears the risk of the business which is a small part of the entire business.
5. Entrepreneur is the real owner of the business.	5. Intrapreneur is not the real owner of the business, rather he works for the business.
6. Entrepreneur operates from outside an organisation.	6. Intrapreneur operates from within the organisation.
7. Entrepreneur converts the ideas of Intrapreneur into viable opportunities.	7. Intrapreneur takes the responsibility of creating innovation of any kind from within the organisation.

### **Distinction between an Entrepreneur and a Manger**

Sometimes, an entrepreneur and a manager are considered as synonymous. The two terms are used interchangeably. In fact, the two terms differ in their meaning. The major points of distinction between the two are presented as follow:

<b>Points of distinction</b>	<b>Entrepreneur</b>	<b>Manager</b>
<b>1. Status</b>	An entrepreneur is the owner of the enterprise.	A manger is just an employee in the enterprise.
<b>2. Motive</b>	The main motive of an entrepreneur is to start a venture by setting up an enterprise.	The main aim of a manger is to render services to an entrepreneur.
<b>3. Risk-bearing</b>	An entrepreneur, being the owner of the enterprise assumes all risk and uncertainty.	A manager as the servant does not share any risk involved in the enterprise.
<b>4. Rewards</b>	The reward of an entrepreneur is profit.	The reward of a manger for rendering his services is salary.
<b>5. Decision making</b>	All the polices and strategic decisions like expansion, diversification, takeovers, mergers, capital budgeting pricing polices etc. are taken by entrepreneur.	A manager simply implement the polices prepared by entrepreneur and gives them practical shape.

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## **2.6 THEORIES OF MOTIVATION**

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Behaviour is manifestation of what person think, feels and acts. An entrepreneur is a creative person. Need for actualization as manifested in the need for achievement forces him to create him something new, a new product, a new way of doing things, a new source of raw material, a new market etc. Behaviour is always caused and is never spontaneous. Human behaviour is goal directed towards satisfaction of needs. Whenever a person feels any need, he feels uneasy and tensions starts building his mind. This tension provokes him to initiate some action which may lead to the satisfaction of the needs. This tension provokes him to initiate some action which may lead to the satisfaction of the need. If that need is not

satisfied that individual is required to resort to some alternate action for the satisfaction of the need. Entrepreneurial behaviour is results of entrepreneurial motivation. Motivation refers to the inner urge that ignites and sustain behaviour to satisfy need. Motivation has been derived from the word 'motive' which implies the inner state of mind that activates provokes and directs our behavior towards the goal.

According to **McFarland**, "Motivation refers to the way in which urges drives, desires, striving, aspiration or needs direct control or explain the behavior of human beings." Thus motivation may be defined as the process that motivates a person's into action and induces him to follow the course of action till the goals are finally achieved. Need is the starting point of motivation. A satisfied need does not motivate an individual. It is only the unsatisfied need which creates tension and stimulates drives within the individuals for the satisfaction of the need and reduction of tension. The efforts or action initiated by the individual will yield results which will lead to satisfaction of need or removal of tension. Classical theory and scientific management thinkers were of the opinion that people are mainly interested in maximizing economic gains as they were primary concerned with satisfying their basis needs of food, water, air, shelter etc. Thus they tried to link up performance and productivity with monetary rewards or incentives. F.W Taylor, father of scientific management proposed differential piece rate system for motivating workers to work at their level best. The traditional thinkers were mainly concerned with the monetary reward and were treating human beings as mere machines, which don't have any inner feelings or emotions. Under Hawthorne experiments it was proved that there was no direct relationship between productivity and economic rewards. Money is an essential condition but not a sufficient one for motivating people to work. Human beings are not machines and they have also social and psychological needs.

Various researchers are actively engaged in finding answers to basic question i.e. what motivates people? Or what makes them work? Various theories have been propounded by different expert to focus attention on this basic issue. Prominent and relatively more relevant to entrepreneurship are as under:

**a. Maslow's Need Hierarchy Theory**

Maslow's theory is based on human needs. He developed a conceptual framework for understanding human motivation. He was of the opinion that every individual as a complex

set has exceptionally strong needs and behaviour of an individual at a particular moment of time and is usually determined by his strongest need. He defined person effectiveness as a function of matching man's opportunity with the appropriate position of hierarchy of needs. Process of motivation begins with the assumption that the behaviour, at least in part, is directed towards the achievement or the satisfaction of needs. Maslow's felt that the 'needs have a definite sequence of domination', second need does not dominate till first need is reasonably satisfied and third need does not dominate until first two needs have been reasonably satisfied. Man is never fully satisfied, if one need is satisfied the other will arise and so on. Once a need or certain order of needs is satisfied, it ceases to be motivation factor. Maslow stated that human beings have five basic levels of needs, which they tend to satisfy in a hierarchical manner. He proposed that human needs can be arranged in a particular order from lower level of needs to the highest level needs.

### **Five Needs of Maslow Need Hierarchy Theory**

These five needs can be discussed as follows:

This hierarchy of human needs can be shown in the following figure:-

**(i) Physiological needs:** These needs are basic and are related to survival and maintenance of life. These needs comprise of food, water, air shelter, clothing, and necessities of life. The first priority of human beings is to acquire basic necessities of life and then move to second level of needs.

**(ii) Safety and security needs:** After satisfying physiological needs, human beings aim at satisfying safety and security needs. Human beings are not content with just satisfying present physiological needs, they want to make provision for the same for future also. They want job security, personal body security, security of the source income, insurance against risks, etc. entrepreneurs just like other human beings are guided by all these factors.

**(iii) Social needs:** Man is a social animal and wants to belong to a social group where his social and emotional needs for love, affection, warmth and friendship are satisfied. An entrepreneur too is interested in conversation, exchange of feelings with fellow entrepreneurs, his employees and others. He wants to belong to others, and expects that others should belong to him i.e. the feeling or belongingness.

(iv) **Esteem needs:** These needs include self respect, self confidence, prestige, power and control. These are also known as egoistic needs and effect prestige and status of individual. Entrepreneurs derive status and respect through their ownership and control over business.

(v) **Self-actualisation Fulfillment Needs:** This is the ultimate goal and involves realizing one's potentialities for continued self development. After other needs are fulfilled a man has the desire for personal achievement. He want to do something which is challenging and since this challenge gives him enough push and initiative to Work. It is beneficial to him and the society. The sense of achievement gives him psychological satisfaction. An entrepreneur can achieve self actualization in being a successful entrepreneur.

For the development of entrepreneurship last three in the hierarchy i.e. social, esteem and self actualization are more important.



**Figure 2.1: Maslow's Need Hierarchy Model**

## **b. McClelland's Three Need Model**

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

- 1. Need for achievement:** A drive to excel, advance and grow. This refers to one's desire to achieve something with own efforts.
- 2. Need for power:** A drive to influence others and situation. It refers to one's desire to influence and dominate others through use of authority.
- 3. Need for affiliation:** A drive for friendly and close inter personal relationship. It refers to one's, desire to establish and maintain friendly relationship with others.

People possess the above needs in varying degrees and these needs may be simultaneously are characterized by the following:

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

## **c. Alderfer's ERG Theory**

Clayton Alderfer reformulated Maslow's five levels for needs can be regrouped under three heads namely Existence, Relatedness and Growth (ERG)

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

**ii. Relation's needs:** these include Maslow's social and esteem needs which are derived from other people. These needs are satisfied by personal relation and social interactions.

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

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

### **The motivating factors**

Several factors have been undertaken to identify the factors that motivates people to start their own enterprises. **P. N. Sharma** has identified nine motivating factors which are as under:

#### **I. Educational background**

- Occupational experience.
- Desire to do work independently.
- Desire to branch out to manufacturing.
- Family background.
- Assistance from government.
- Assistance from financial institutions.
- Availability of technology / raw material.
- Other factors demand of the particular product, utilization of excess money earned from contractual estate business started manufacturing to facilitate trading/ distribution

business since the product was in short supply, unstable policy of foreign government for non residents and no chance for further promotion.

The above nine factors were grouped in to two major categories: internal and external. First five motivating factors were termed internal and the last four factors as external. The internal motivating like education, occupational experience, family background, the desire to do something independently together make the personality of the entrepreneur. These factors generate an inclination to adopt entrepreneurial activity. The presence internal factor is necessary condition for the entrepreneurial activity to take place. But entrepreneurial ideas cannot fructify or take real shape without a proper or conducive assistance, technology and raw material and infrastructural facilities. These facilities from external motivating factors serve as a spark in igniting the entrepreneurial idea. These factors give a boost to the entrepreneurial activities.

The study by **P. N. Sharma** revealed occupational experience as the most significant internal motivating factor. This experience was accumulated by entrepreneurs either as business executives in industrial concern or as traders/merchants, consultants etc. This experience shows that the entrepreneur had knowledge about the product, industry and technology applied before promoting the present unit. Moreover occupational experience provides confidence to the entrepreneurs who help reduce the element of uncertainty regarding demand of the product, technology, raw material, etc. Technically and professionally qualified entrepreneurs had established enterprises in the fields of their specialization which amply proved that they were prompted by their qualification or specialization to initiate industrial activity. Desire to work independently in manufacturing line was another motivating factor. There were certain other persons desirous of changing their occupation as they were of the opinion that there is greater respect in manufacturing. Assistance from financial institutions and the government has emerged as the most important external motivating factor. Most of the entrepreneurs believe that their projects would not have seen light of the day in the absence of adequate financial assistance, infrastructural facilities, etc. Availability of appropriate technology either from indigenous sources or from foreign collaborations can be another motivating factor for few entrepreneurs.

**Prof. R.A. Sharma** has classified the factors which prompted entrepreneurs to enter industry as follow:

- A. Factors internal to the entrepreneur.
  - a) Strong desire to do something independent in life.
  - b) Technical knowledge and /or manufacturing experience.
  - c) Business experience in the same line.
  
- B. Factors external to the entrepreneur
  - a) Financial assistance from institutional sources.
  - b) Accommodation on hire estates
  - c) Machinery on hire system.
  - d) Attitude of the government to help new units.
  - e) Financial assistance from non government sources.
  - f) Encouragement from big business
  - g) Heavy demand.
  - h) Profit margin.
  - i) Unsound units available at cheap rates.

It is clear from the above that majority of the new entrepreneurs were tempted to enter industry because of three main factors, viz. They have strong desire to do something independent in life.

- ii) They were having technical knowledge or manufacturing experience.
- iii) Availability of governmental and non-governmental assistance.

Another study on entrepreneurial motivation by M Chandra Shekhar and M. Gandhara Rao has classified the factors behind entrepreneurial growth into three categories as follows:

## **I. Entrepreneurial Ambitions**

- (a) To make money.
- (b) To continue family business.
- (c) To secure self employment/independent living.
- (d) To fulfill desire of self/wife/parents.
- (e) To gain social prestige.
- (f) Other ambition-making of a decent Living, desire to do something creative, provide employment to others, circumvent Land Ceiling Act, etc.

## **II. Compelling Reasons**

- (a) Unemployment
- (b) Dissatisfaction with the job so far held or occupation pursued.
- (c) Make use of idle time.
- (d) Make use of technical/ professional skills.
- (e) Other maintenance of large families, revival of sick units started by father etc.

## **III. Facilitating Factors**

- (a) Success stories of entrepreneurs.
- (b) Previous association (experience in the same or other line of activity)
- (c) Previous employment in the same or other line of activity.
- (d) Property inherited/self acquired/wife's
- (e) Advance or influence (encouragement of Family members/ relatives/friends).

(f) Association as apprentices and sleeping partners.

According to McClelland executives generally have higher needs for achievement than men in other professions. He considered the need for achievement to be most critical to a nation's economic development. McClelland found that achievement motivation was lower among people of underdeveloped countries than those of developed countries. Overall better results can definitely be achieved by making people achievement oriented. According to McClelland achievement motivation can be developed through training and experience. Ambition is the lever of motives and nourishes achievement motivation. McClelland conducted the Kakinda Experiment in Kakinda town of Andhra Pradesh. Fifty-two persons from business and industrial communities from the Kakinda town were selected. They participated in an orientation programme conducted by the Small Industry Extension Training Institute, Hyderabad. The experiment was designed to stimulate the imagination and encourage introspection in personal motivation and community goals. The achievement development programme consisted of the following steps:

- a) The individuals strived to attain concrete and frequent feedback.
- b) The participants sought models of achievement i.e. watched those who have performed well and tried to emulate them.
- c) The participants imagined themselves in need of success and challenge. They set carefully planned and realistic work goals.
- d) The trainees were asked to control day dreaming by thinking and talking to themselves in positive terms.

After two years the trainees were observed. It was observed that they performed better than those who did not attend the programme. McClelland concluded that the participants displayed more active business behaviour and worked for long hours. McClelland explains that people with low achievement motivation are prepared to work hard for money or other such incentives but the people with high achievement motivation work for status. He argues that people with high need for achievement possess the following attributes:

- a) Prefer personal responsibility for decision.

- b) Are moderate risk takers.
- c) Possess interest in concrete knowledge about the results of decisions.

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## **2.7 MEANING OF EDP**

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An entrepreneur is a pivot around which the entire industry rotates. He is the one who is going to perceive, initiate, organize and manage an enterprise. He is to bear all the risks and uncertainties associated with setting up, running and the ultimate outcome of the enterprise. Success in any venture depends upon foresight, knowledge, optimism, hard work, persistence and efficient management. Some of these are possessed by individuals due to inheritance i.e. by birth in a particular family, whilst others can be acquired from the environment through education, training and experience. No one can choose ones parents but knowledge about various aspects of business can be acquired from various entrepreneurial development programmes. Entrepreneurship does not emerge and develops of its own. Its emergence and development depends on various economical and non-economical factors. Economic factors comprise of land, labor, capital, raw material and market whereas non economic factors are social climate for entrepreneurship, social mobility need-achievement, status and respect. The government can also play a positive role in the emergence and development of entrepreneurship by providing training, incentives concessions etc. and by creating an environment which is conducive for the growth of entrepreneurship. Economic development of any country depends upon its entrepreneurs. A country is bound to make rapid progress where right types of entrepreneurs are available in adequate numbers, who are going to perceive and exploit the opportunities, as and when they arise, in the best interests of the business. An entrepreneur is one who possesses vision, drive and ability to bear risk. He as an initiator is going to transform the economic scenario of an economy. Entrepreneurial development has gained great deal of importance in all the developing and developed economies of the world. Entrepreneurial talent can be raised by undertaking various development programmes can be defined as a programme designed to help an individual in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. It is necessary to promote this understanding of motives and their impact on entrepreneurial values and behaviour for this purpose. The myth that entrepreneurs are born and not longer holds good. A good number of entrepreneurs can be developed and trained to undertake ventures

and be creative by training and hard work. However, they are selected person who have the potential to be successful entrepreneur. Entrepreneurial development is an important educational process of human resources development. Entrepreneurial behavior cannot develop in vacuum. It needs favorable environment conditions in which a potential entrepreneur can learn, train, work and perform his activities. Therefore, entrepreneurial development programmes are the prerequisites for the economic development and growth of an economy. Every potential entrepreneur must have some common intelligence. Other qualities and capabilities like motivation, knowledge, risk taking, capacity, opportunity creation etc. can be injected through proper entrepreneurial development programmes.

Entrepreneurial development programme is a systematic and organized development of a person to an entrepreneur refers to inculcate the entrepreneurial skills into a common person, providing the needed knowledge, developing the technical, financial, marketing and managerial skills and building the entrepreneurial attitude. The concept of entrepreneurial development involves equipping a person with the required information and knowledge used for enterprise building and polishing his entrepreneurial skills. In these days, entrepreneurial development programmes are treated as an important tool of industrialization and solution of unemployment problem of India. The overall aim of a entrepreneurial development programme is to stimulate a person for adopting entrepreneurial as a career and to make him able to identify and exploit the opportunities successfully for new venture.

### **Definitions**

“Identifies intelligence, motivation, knowledge and opportunity as the prerequisites for entrepreneurial development”.

**Joseph E. Schempter**

“Entrepreneurial development programme may be defined as a programme designed to help an individual in strengthening his entrepreneurial motive and in acquiring skills and capabilities necessary for playing his entrepreneurial role effectively. It is necessary to promote this understanding of motives and their impact on entrepreneurial values and behaviour for this purpose”.

**N. P. Singh**

“It is an attempt to develop person as entrepreneur through structural training. The main purpose of such entrepreneurial development programme is to widen the base

of entrepreneurship by developing achievement motivation and entrepreneurial skills among the less privileged sections of society".

**SIET Institute, Hyderabad**

### **2.7.1 Features of EDP**

Following are the some important features of EDP's

1. Enhancing the motivation knowledge and skills of the potential entrepreneurs.
2. Assisting them in the development of their own enterprise.
3. Arousing and reforming the entrepreneurial behaviour on their day to day activities.
4. Join an EDP all your problem is solved.
5. EDP's success in the sole responsibility of trainer motivations.
6. Higher the number better the EDP
7. Need based common facilities centre.

### **2.7.2 Objectives of EDP**

The main objective of an entrepreneurial development programme is as follows:

1. To indentify and train the potential entrepreneurial in the region.
2. To develop necessary knowledge and skills among the participants in EDP's.
3. To impart basic managerial knowledge and understanding.
4. To provide post -training assistance.
5. To develop and strengthen entrepreneurial quality and motivation.
6. To analyse the environmental issues related to the proposed project.

7. To help in selecting the right type of project and products.
8. To formulate the effective and profitable project.
9. To enlarge the supply of entrepreneurs for rapid industrial development.
10. To develop small and medium enterprises sector which is necessary for employment generation and wider dispersal of industrial ownership.
11. To industrialize rural and backward regions.
12. To provide gainful self employment to educated young men and women.
13. To diversify the source of entrepreneurship.
14. To know the pros and cons of being an entrepreneur.
15. To provide knowledge and information about the source of help, incentives and subsidies available from government to set up the project.
16. To impart information about the process, procedure, rules and regulations for setting up a new unit.

### **2.7.3 Achievements of EDP**

Entrepreneurship plays a very important role in the economic development entrepreneurs as catalytic agent in the process of industrialization and economic growth. **Joseph Schumpeter** states that the rate of economic progress of a nation depends upon its rate of innovation which in turn depends up on the distribution of entrepreneurial talent in the population. Technological progress alone cannot lead to economic development unless technological breakthrough are put to economic use by entrepreneurs. It is the entrepreneur who organizes and puts to use capital, labour and technology in the best possible manner for the setting up of his enterprise. EDP enables entrepreneurs in initiating and sustaining the process of economic development in the following ways.

**1. Creation of Employment Opportunities:** Unemployment is one of the most important problems confronting developing and undevelopment countries, EDP's enable prospective entrepreneurs in the setting up of their own units, thus enabling them to get self

employment. With the setting up of more and more units by entrepreneurs, both on small and large scale, numerous job opportunities are created for the others. Entrepreneur in this way get an opportunity to lead an independent and honorable life and at the same time they enable others in getting employment. Several schemes like Nehru Rozgar Yojna, National Rural Employment Programme (NREP), and Integrated Rural Development Programme (IRDP) etc. have been initiated by the Government of India in the direction. The thrust of all these schemes is to eliminate poverty and generate gainful employment opportunities for the unemployed. Thus entrepreneur can play an effective role in reducing the problem of unemployment.

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

**3. Balanced Regional Development:** Small scale units can be set up in industrially backward and remote areas with limited financial resources. Successful EDP's assist in accelerating the pace of industrialization in the backward areas and reduce the concentration of economic power in the hands of a few, Entrepreneurial feel like taking advantage of the various concessions and subsidies offered by the state and central government. Success storey of entrepreneurs set right example for others to follow and this accelerates the pace of industrialization in the backward areas.

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

**5. Improvement in Per Capita Income:** Entrepreneurs are always on the lookout for opportunities. They explore and exploit the opportunities. Entrepreneurs take lead in organizing various factor of production by putting them into productive use through the setting up of enterprise. More enterprise will lead to more production, employment and generation of wealth in the form of good and service. It will result in the increase in the overall productivity and per capita income in the country. EDPs play a positive role in the setting of more units thus helps in generation of more employment and income.

**6. Improvement in the Standard of Living:** Entrepreneurs by adopting latest innovation help in the production of wide variety of goods and services. By making efficient use of the resource, this starts producing more of better quality and that too at lower costs. This enable them to ensure easy availability of better quality product at lower prices to the consumer which result in the improvement in the standard of living of the people. EDPs provide the necessary support to entrepreneurs by educating them about latest innovations and market trends.

**7. Economic & Independence:** Entrepreneurs enable a country to produce wide variety of goods & services and that too at competitive prices. They develop substitutes of the good being imported and thus prevent over- dependence on foreign countries and at the sometime help in the saving of precious foreign exchange, which is so essential for meeting developmental needs of the economic independence of the economy.

**8. Preventing Industrial Slums:** Industrially developed areas are faced and problem of industrial slums, which result in over burdening of civic amenities and adverse impact on the health of people. Dispersal of industries can help in the overcoming of this grave problem. EDPs can help in preventing spread of industrial slums by providing varies incentives, subsidies and infrastructural support to entrepreneurs for setting up their enterprise in industrially backward areas. This will also help in reducing pollution and overtaxing of civic am entities.

**9. Reducing Social Tension:** Unemployment amongst the young and educated people is emerging as major cause of social unrest. People are bound to feel frustrated if they fail to get gainful employment after completion of their educated. EDPs can help in channel sing the talent of this section of society in the right direction by providing proper

guidance, training and assistance for setting up their enterprise that result in generation of self employment and prevention of social tension, unrest etc.

**10. Facilitating Overall Development:** An entrepreneur acts as a catalytic agent for change which results in chain reaction. With the setting up of an enterprise's the process of industrialization is set motion. This unit will generate demand for various types of inputs required by it and there will be so many other units which will require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units there. Moreover success of one entrepreneur sets the right type of example for others to follow. Entrepreneurs thus create an environment of enthusiasm and convey a sense of purpose. This gives future impetus to the overall development of that area.

#### **2.7.4 Steps of EDP Process**

An entrepreneurial development programme process consists of the following main steps:

**1. Selection of potential entrepreneurs:** The first and foremost step in the EDP is the proper and right selection and identification of potential entrepreneurs. It refers to find out individuals who can be converted into entrepreneurs. The utmost care should be taken in identifying the right participants for the EDP's. Before selecting the person for training due recognition should be provided to his family background, motivation level, educational qualifications and entrepreneurial skills and competencies. Various modes of selections such as test, group discussions and interviews may be adopted in the selection of potential entrepreneurs. The two essential components such as identification of entrepreneurial qualities in the potential entrepreneurs and identification of suitable and viable opportunity or project for each identified entrepreneur should be kept in mind in selection of potential entrepreneurs.

**2. Identification of entrepreneurial traits and skills:** Every participant must have a minimum level of eligibility for becoming an entrepreneur. The entrepreneurial traits are broadly grouped into two categories:

(a) **Socio- personal traits:** The socio-personal traits, qualities and competencies of participants include family background, age, education, size and type of family, working hands, earning members and social participation.

- (i) **Family background:** The knowledge about the family background of a participant helps to understand the occupational awareness for the entrepreneurs. There is certain special type of families traditionally involved in certain types of work. Most people prefer to adopt similar tasks to family business.
- (ii) **Age:** Younger people are more successful their higher risk taking ability as compared to older people, creative and innovative thinking.
- (iii) **Educational level:** The educational level of participant must be given due consideration. A minimum level of education and types of education play a very significant role in the success of new enterprise.
- (iv) **Size and Type of Family:** The size and types of entrepreneur's family must also be considered. A joint family has generally a greater risk bearing capacity as compared to nuclear family.
- (v) **Working hands:** The working hands of family member of potential entrepreneurs also count much.
- (vi) **Social participation:** The social participation of potential entrepreneur will determine his social status in the society. Greater social participation improves the ability to influence others and the success of the entrepreneur.

Therefore, priority should be given to those persons having experience in business, a functional level of education, young, family and financial support while selecting candidates for EDP.

(b) **Human resources factors:** These are the inherited or acquired skills. The following human resource factors must be considered:

- (i) **Achievement motivation:** It is the basis of entrepreneurship as entrepreneurs with high need achievement succeed better; it involves both personal achievement and social achievement.
- (ii) **Willingness to take risk:** Risk taking willingness refers to seek change in business activity. The person perceiving greater amount of risk in the venture has the higher risk taking willingness.
- (iii) **Influencing ability:** The entrepreneur would need for adequate motivation to both influence and control the people and environment to achieve the end to successfully.
- (iv) **Personal efficacy:** It is the general sense of adequacy in a person. Personal efficacy is an important factor contributing to entrepreneurial behaviour of a person. Personal efficacy can be defined as the tendency in the individual to attribute success or failure to external factors. A person having higher personal efficacy believes in his capacity to control and shape the environment while and individual having low personal efficacy believes that things are not under his control and occur due to fate.
- (v) **Aspirations:** Aspirations are aim of objectives of future. These are relating to future prospects of an individual desire. A person having low level of aspiration is not likely to become an entrepreneur.

Therefore, individual having a minimum level of entrepreneurial qualities like risk taking, innovative, self confidence, initiative, etc. also play dominant role in entrepreneurship.

**3. Identification of enterprise:** It is essential to decide a suitable enterprise or project for potential entrepreneur after studying his socio-personal and human resource characteristics. The entrepreneurial project must be suited to the requirements of potential entrepreneurs. A number of factors such as his skill, experience, physical resources, family

occupation, etc. should be taken in consideration before selecting an enterprise. After deciding the enterprise, the potential entrepreneur has to study the viability in terms of financial resources, availability of raw materials, marketing profitability, etc.

**4. Contents of training programmes:** There are different kinds of participants having different backgrounds and qualities to attend the entrepreneurial development programme. The following types of training is provided during the time duration of programme.

(a) **Technical knowledge and skills:** The deep knowledge about the technical aspect of the trade should be given to potential entrepreneur who will enable him to learn the process of manufacturing and trading. A number of field trips to industrial units can be arranged to understand the practical aspects of the technology.

(b) **Achievement motivation training:** The main aim of achievement motivation training is to develop the need and desire to achieve, risk taking, initiative and other such personal behavioral qualities. The self awareness and self confidence can be created among the participants through a achievement motivation programme. Motivation training helps the people to expand their business activities and their business venture.

(c) **Support systems and procedures:** The proper training relating to support systems and procedure should be given to participants. The participants become able to understand the functioning of various agencies like commercial banks and financial institutions, industrial service corporations and other institutions dealing with supply of raw material, equipment, marketing, etc.

(d) **Market survey:** An opportunity to actually conduct market surveys to select the project is provided to participants. This will help them to understand the actual marketing position and other methods of dealing in the markets.

(e) **Managerial skill:** A participant requires managerial skills to start the enterprise. It should involve all the managerial factors such as planning, organization, coordination, leadership, supervision, control, etc. The main aim of managerial training is to enable the participants to run the enterprise successfully.

**5. Production:** After the enterprise is set up, production starts. At this step, the managerial and technological skill acquired in the EDP comes into use. Once the production starts the entrepreneur has to initiate supply of products through suitable marketing channel. The production and marketing are the most crucial stage in the entrepreneurial endeavor. Failure in either would mean a breakdown in EDP.

**6. Monitoring and follow up:** Continuous monitoring and follow up is essential for the success of any entrepreneurial development programme. At every stage of EDP, a system of proper monitoring needs to be built in. The defects and problems of EDP can be identified and removed through a proper monitoring system. Monitoring should provide continuous guidance to ensure better results. The monitoring and follow up should be conducted during each stage of pre - training and post -training of EDP. Pre-training follow up includes evaluation of training infrastructure and training syllabus. The post - training phase is designed to help entrepreneurs to achieve technical, managerial, marketing and financial skills.

### **2.7.5 Evaluation of EDP**

Evaluation of an EDP's can be judged on the basis of extent of success achieved in the realization of objectives established under EDP. According to Dr. Sharma entrepreneurial performance is a function of the following factors:-

- 1. Socio cultural background of the entrepreneur (SB):** This implies environment in which the entrepreneur was born and brought up. It conditions the values and attitudes of the entrepreneur.
- 2. Motivational forces (MF):** It implies the motives the motives which promotes a person to undertake entrepreneurship e.g. wealth, status, self employment, etc.
- 3. Knowledge and ability of the entrepreneur (KA):** It refers to the education, training and experience of the entrepreneur.
- 4. Financial strength (FS):** It means the funds which an entrepreneur can mobilize from internal and external sources.

**5. Environmental variables (EV):** These consist of government prices, market conditions, availability of technology and labour situation.

Symbolically entrepreneurial performance can be represented in the following way

**EP = f (SB, MF, KA, FS and EV).**

Various studies have been undertaken by different organizations to find out how many participants in different EDP's have actually started their own enterprise after completing their training under EDP's. Entrepreneurship development institute of India, Ahmadabad had recently undertaken a nationwide evaluation study on the effectiveness of EDP's. The major findings of the study are

- (i) One out of four trainees actually started his/her enterprises after completing EDP
- (ii) The final start up rate is higher around 32 per cent.
- (iii) About 10 percent trainees are found blocked due to various reasons at various stages in the process of setting up their enterprises. If proper assistance is not provided they may add to the category of 29 percent trainees who have already dropped the idea of setting up their own enterprises
- (iv) 17 percent have given up an idea of starting their ventures as they are engaged in other activities.

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

**1. Financial results:** Judgment about the financial health of the enterprise can be made on the basis of various yardsticks, like return on capital employed, net profit over the sales, etc.

**2. Gestation period:** It represents the time gap between the registration and commencement of commercial production. Gestation period of two or three years is regarded as satisfactory by the financial institutions. Projects can be delayed due to various reasons like delay in governmental approval, assistance from financial institutions, manpower availability problem and problems with collaborators.

3. **Capacity utilization:** It depends upon the demand for fished products and availability of various factors of production like funds, raw material, power labour, etc. Break even occurs for majority of entrepreneurs at 60 percent of installed capacity. Approximately 50 percent of entrepreneurs were operating at 80 % of installed capacity.
4. **Expansion and diversification:** Expansion refers to the increased production of the same product whereas diversification implies production of new type of products. Depending upon the demand and availability of resources firms can opt for expansion or diversification.
5. **Value Addition:** It refers to the gross value of output minus value of raw materials and other inputs used in the production. More is the value addition more efficient is the entrepreneur.
6. **Other Factors:** Various other factors can be used to examine entrepreneurial effectiveness. These can be employment generation, rural development. Sales turnover, export promotion and import substitution, etc, can be some of these factors.

#### 2.7.6 Obstacles in the smooth conduct of EDP's

Following are the obstacles in the smooth conduct of EDP's:

1. **No policy at the national level:** Through government of India is fully aware about the importance of entrepreneurial development, yet we do not have a national policy on entrepreneurship. It is expected that the government will formulate and enforce a policy aimed at promoting balanced regional development of various areas through promotion of entrepreneurship.
2. **Problems at the pre training phase:** Various problems faced in this phase are identification of business opportunities, finding and locating target group, selection of trainee and trainers, etc.
3. **Over estimation of trainees:** Under EDP's, it is assumed that the trainees have aptitude for self employment and training will motivate and enable the trainees in the successful setting up and managing of their enterprises. These agencies thus overestimate the aptitude and capabilities of the educated youth. Thus, on one hand, the EDP's do not

impart sufficient training and on the other hand , financial institution are not prepared to finance these risky enterprises set up by the not so competent entrepreneurs.

**4. Duration of EDP's:** An attempt is made during the conduct of EDP's to prepare prospective entrepreneurs thoroughly for the various problems they will be encountering during the setting up and running of their enterprises. Duration of most of these EDP'S varies between 4 to 6 weeks, which is too short period to instill basic managerial skills in the entrepreneurs. Thus, the very objective to develop and strengthen entrepreneurial qualities and motivation is defeated.

**5. Non availability of infrastructural facilities:** No prior planning is done for the conduct of EDP's. EDP's conducted in rural & backward areas lack infrastructural facilities like proper class room, suitable guest speakers, boarding & lodging, etc.

**6. Improper methodology:** The course contents are not standardized and most of the agencies engaged in EDP's are themselves not fully clear about what they are supposed to do for the attainment of predetermined goals. This puts a question mark on the utility of these programmes.

**7. Mode of selection:** There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organization conducting EDP's prefer those persons who have some project ideas of their own and thus this opportunity is not providing to all the interested candidates.

**8. Non availability of competent faculty:** Firstly, there is problem of non availability of competent teachers and even when they are available; they are not prepared to take classes in small towns and backward areas. This naturally creates problems for the agencies conducting EDP.

**9. Poor response of financial institution:** Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans. Those entrepreneurs who fail to comply with the conditions are not able to get loan and hence their dream of setting up their own enterprises is shattered. Helpful attitude of lending institutions will go a long way in stimulating entrepreneurial climate.

**10. Problems faced by women entrepreneurs:** Various problems are as under:-

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

### **2.7.7 Suggestions to make of EDP's successful**

**1. Emphasis on stimulating, supporting and sustaining activities:** There should be balance between stimulating, supporting and sustaining activities for making EDP's successful. Stimulating activities comprise of entrepreneurial education, publicity of entrepreneurial facilities, motivational training and assistance in the identification of viable projects, creating a common platform for entrepreneurs where they can share their problems, experiences and success. Under supporting activities come various forms of support that can be extended to the potential entrepreneurs for setting up and running of their units. Supporting activities include registration, funds, mobilization, license, tax relief and incentives and management consultancy services. Sustaining activities include expansion, diversification, modernization and quality control.

**2. Model based EDP's:** Entrepreneurial development is an area where there is not ready made solution available. The agency undertaking an EDP is expected to have in-depth study of the demand pattern and availability of the local resources. Any particular model of training which may be very successful in one area proves to be utter failure in another area.

**3. Focus on achievement motivation:** In order to create right impact on potential entrepreneurs it is essential to develop achievement motivation. Amongst them through

proper training which may be very successful entrepreneur will serve as a role model for others and they will like to follow him.

**4. Designing of viable projects:** A viable project is that project which is feasible in terms of availability of resources and market potentials. A viable man has the requisite aptitude and competence to initiate a project. The EDP organizers should prepare the projects keeping in mind local resources, finding, training requirements and assessing the feasibility of the same. The entrepreneurial development agencies should select right people impart right training and entrust viable projects to them for making EDP's successful.

**5. Selection of trainees:** Trainees should be selected after proper screening. Educated unemployed youth having aptitude for self employment should be preferred having traditional background in the chosen economic activity should be preferred. Effort, money and resource must not be wasted on those trainees, who lack requisite and commitment.

**6. Training of trainers:** Success of EDPs depends on the trainers. They should be committed, competent and qualified. Trainers must be fully acquainted with whatever is latest in their respective fields.

**7. Organising part time programmer:** Part time EDPs can definitely suit those people who are working or study somewhere else. These EDPs can be conducted during weekends or in the evening. By providing part time EDPs we can provide opportunity to those who cannot join any regular EDP.

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

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## **2.8 ROLE OF STATE IN FOSTERING ENTREPRENEURIAL DEVELOPMENT**

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After independence of our country the Government of India found that on one hand industrial development was confined to a few developed cities and on the other it was concentrated in the hands of a few top business houses. The government decided to promote entrepreneurial activity through various incentives in both industrially backward and rural areas. The thrust of these programmes was to provide technological, financial, market and morale support to the potential entrepreneurs, who can act as catalytic agents of change and development. There are various agencies and institutions engaged in entrepreneurial development activity and these are as under:

- **National Small Industries Corporation (NSIC)**

The NSIC was set up in 1995 with the main objective of supplying machinery and equipment to small enterprises on a hire purchase basis and assisting them in procuring government orders for various items of stores. The head office of NSIC is at Delhi and it has four regional offices at Delhi, Mumbai, Chennai and Kolkata and eleven branch offices. It has one central liaison office at Delhi and depots and sub centers.

### **Functions of NSIC**

- a. To develop small scale units as ancillary units to large scale industries.
- b. To provide machines to SSIO on hire purchase basis.
- c. To help enterprises to participate in the stores purchase programme of the central government.
- d. To assist small industries with market facilities.
- e. To distribute basic raw materials through their depots.
- f. To import and distribute components and parts to actual small scale users in specific industries, and
- g. To construct industrial estates and establish and run prototype production cum training centers.

The NSIC has taken up the challenging task of promoting and developing small scale industries almost from scratch and has adopted an integrated approach to achieve the socio-economic objectives.

- **District Industries Centres (DIC's)**

District industries centres (DIC's) have emerged since 1978 as the nodal agency for development of small and village industries to provide all the support services needed for such development. The DIC's were established with a view to provide integrated administrative framework at the district level with qualified personnel in technology, marketing, credit, economic investigation, raw materials. The DIC is an institution at the district level which provides all the services and facilities to the entrepreneurs. The entrepreneurs can get assistance from DIC for setting up and running an industry. Up to 1991, about 422 DIC's were serving the country almost one for each district throughout the country and 431 districts were in operation. These DIC's have assisted more than 1.5 Lakh units generating employment for more than 10.3 lakh persons. The four metropolitan cities Mumbai, Chennai, Delhi and Kolkata have been outside the previews of DIC's.

#### **Funding of DIC's**

The DIC's are funded by the state concerned and the centre jointly. The government has provide substantial assistance to the DIC's which can be spent by DIC's on construction of an office building , expenditure on furniture, fixtures, equipment , vehicles and other securing expenses.

#### **Functions of DIC's**

- a. Identification of Entrepreneurs:** DIC's develop new entrepreneurs by conducting entrepreneurial motivation programme throughout the district particularly under SEEUY scheme. DIC's also take association of SISI's and TCO's for conducting EDP's.
- b. Provisional registration:** Entrepreneurs can get provisional registration from DIC's which enable them to take all necessary assistance from term lending institutions only after getting provisional registration. The provisional registration is awarded for two years initially and can be renewed every year but only for two times.

- c. Permanent registration:** When the entrepreneur completes all formalities required to commence the production selection of site, power connection, installing machinery, etc he can apply to DIC for permanent registration. It is only after getting the permanent registration that the entrepreneur can apply for supply of raw materials on concessional rates.
- d. Purchase of fixed assets:** The DIC's recommend loan applications of the prospective entrepreneur to various concerned institutions e.g. NSIC, SISI, etc for the purchase of fixed assets and to the commercial banks for the working capital required to run day to day operations.
- e. Clearance from various departments:** DIC takes the initiative to get clearness from various department and takes follow up measures to get speedy power connection.
- f. Assistance to village artisans and handicrafts:** DIC arranges for the financial assistance with lead bank or nationalized bank of the respective areas.
- g. Incentives and subsidies:** DIC help SSI units and rural artisans to get subsidies such as power subsidy, interest subsidy for engineers, subsidy under IRDP, etc. from various institutions.
- h. Interest- free sales tax loan:** SIDCO provides interests free sales tax loan upto a maximum limits of 8% of the fixed assets for SSI units set up in rural areas. But the sanction order for the some is to be issued by DIC. The DIC also recommends on the behalf of SSI units to national small industries. Corporation limited for registration for government purchase programme.
- i. Assistance of import and export:** the DIC recommends the issue of export and import license to the concerned import and export authority.
- j. Fair and exhibitions:** the DICs inspire the SIS units to participate in various fairs and exhibition which are organized by government of India to give publicity to industrial products. DICs provide free space or at concessional rate to SSIs the display their products.

## **Scheme for Financing Actives relating to Marketing of SSI Products**

1. Existing SSI units in the small-sector with a good track record and sound financial position are eligible for assistance under the scheme. New units could also be considered on a selective basis.
2. Specialised organization incorporated as cop\rporate entities and providing marketing assistance, infrastructure support services to industrial concerns in the small scale sector.

### **Purpose:**

- a. Assistance under the scheme may be availed for marketing activities such as :
  - (i) Marketing research.
  - (ii) Research and development product up gradation and standardization.
  - (iii) Preparation of strategic marketing plan.
  - (iv) Advertising, branding, catalogue preparation, production of audio visual aids, etc
  - (v) Participation in trade faire and exhibitions, undertaking sales promotions tours, etc.
  - (vi) Establishing distribution networks including show room/retail outlet/warehousing facilities etc.
  - (g) Training of personal in marketing.
- b. For setting up net show rooms and for renovation of existing show rooms for marketing predominantly small scale cottage and village industry products. Such show rooms could be set within country or abroad.
- c. Development of infrastructure like setting up of permanent exhibition center, industrial parks like garment and software parks, marketing, emporia depots and trade centers. These infrastructural projects should largely benefit the small, cottage and village industries.

- d. Setting up of facilities for providing marketing support to SSI units, e.g. data bank libraries, internet services, etc and assistance libraries and assistance to facilitate setting, up and expansion of such services by service providers as may be relevant.
- e. Working capital term loan requirement and bills discounting facility for service provider in respect of purchase to be made either directly from SSI units or through an intermediary engaged in sourcing such supplies.
- f. Any other activity directed towards promoting the marketing of SSI sector in domestic or international markets.

### **3. Scheme of direct assistance for development of industrial infrastructure for SSI sector**

**Eligible borrowers:** All form of organisation such as public/ private limited companies. Registered societies/ trust, Government Corporation, corporative entities/ accredited NGOs approved by KVIC.

**Purpose:** Setting up of industrial estates/ development of industrial areas includes such project found eligible under KIVIC model.

**Strengthening** Existing industrial clusters / estates by providing increased amenities working of the industrial units.

**Setting up** of warehousing facilities for SSI products /SSI units.

Providing support services i.e. common utility centre such as convention hall trade centre, new material depot, warehousing, tool room etc. any other infrastructural facilities which will benefit.

### **4. Equipment finance scheme**

**Eligible borrower:** Existing units in SSI sector with good record of performance and sound financial position. They should have been in operation for at least three years and have earned profits and /or declared dividend during two year proceeding to take up the scheme. The units should not be in default to institutions/ bank in payment of dues.

**Purpose:** for acquisition of machinery/ equipment, including DG set, both, indigenous and imported, which are not related to any specific project

## **6. Scheme of integrated infrastructural development**

**Eligible borrowers:** Implementing agencies (a public sector corporation or a corporate body or a good NGO having sound financial position) entrusted with the task of implementing the scheme by the concerned state/ union territory.

**Purpose:** For setting up of IID centers with facilities like water supply, power, telecommunication, common services centre including for technological back up services for small scale industries in rural backward area as envisaged under the policy for small scale industries in rural backward areas for promoting and strengthening small, tiny village enterprises announced by Government of India on August 6, 1991. The cost of improving/ upgrading the deficient infrastructural facilities to increase the productivity and optimum use of the existing centers/ clusters in backward/ rural areas may also be covered under the scheme.

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## **2.9 SUMMARY**

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In the modern world people can no longer expect large enterprises to guarantee them jobs for life. Individuals are increasingly expected to seek out their own opportunities, actively create value and behave ethically, rather than faithfully follow rules and routines set by others. In particular, today's young people need to learn to be enterprising, both when working for others and when setting up their own businesses. Being enterprising involves taking responsibility for decision making, becomes increasingly self reliant, pioneering, adventurous, daring, dynamic, progressive, opportunist, ambitious and holding your values, as well as being able to initiate ideas and see them through into action. Role and relevance of Entrepreneurial Development Programme (EDP) in the process of economic development and growth of a nation is immense. Various EDPs are designed to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. Different programmes are designed for different trades, industries and big projects. Basically the EDPs are meant to train and develop new entrepreneurs who act as catalytic agents in the process of industrialization and economic growth. It is the entrepreneur who organises and puts to use capital, labour and technology

in the best possible manner for the setting up of his enterprise. The entrepreneur with his vision and ability to bear risk can transform the economic scene of the country. They play a vital role in initiating and sustaining the process of economic development of a nation. It is the EDP through which the entrepreneurs learn the required knowledge and skill for running the enterprise successfully which ultimately contribute towards economic progress.

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## 2.10 GLOSSARY

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- **Entrepreneurial behaviour:** Entrepreneurial behaviour is a subset of entrepreneurial activities concerned with understanding, predicting and influencing individual behaviour in entrepreneurial settings.
- **EDPs:** EDP is a programme meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise.
- **NGO:** A non-governmental organization (NGO) is a not-for-profit organization that is independent from states and international governmental organizations. They are usually funded by donations but some avoid formal funding altogether and are run primarily by volunteers

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## 2.11 SELFASSESSMENT QUESTIONS

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1. Define entrepreneurial behaviour and discuss its features.

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2. Explain Maslow's Need hierarchy Theory.

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3. Explain role of NSIC and SSIC in entrepreneurial development.

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**2.12 LESSON END EXERCISE**

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1. Define EDP and explain its features & objectives.

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2. Explain Maslow's Need Hierarchy Theory.

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## 2.13 SUGGESTED READINGS

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1. **Desai, Vasant:** “Small Scale Industries and Entrepreneurship”  
Himalayan Publishing House
2. **Desai, Vasant:** “Management of small scale industries”, Himalayan Publications.
3. **Duries, Richard:** “Entrepreneurship in India”, Special Reference to small scale industry.
4. **Desai, Vasant:** “Organisation and Management of Small Scale Industries”, Himalayan Publications.
5. **Khanka, S.S:** “Entrepreneurial Development.” Sultan Chand and Company Ltd.
6. **Arora, Renu and S.K. Sood:** “Fundamental of Entrepreneurship and small scale business”.

**PROJECT ANALYSIS AND FINANCIAL ANALYSIS**

**STRUCTURE**

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Meaning of Project
  - 3.3.1 Characteristics of a Project
  - 3.3.2 Objective of a Project
  - 3.3.3 Classification of Projects
  - 3.3.4 Importance of Projects
- 3.4 Meaning of Project Report
  - 3.4.1 Stages of Project Report
- 3.5 Project Design/Plan
  - 3.5.1 Project Design and Formulation
- 3.6 Project Appraisal
  - 3.6.1 Objectives and Scope of Project Appraisal
  - 3.6.2 Significance of Project Appraisal
  - 3.6.3 Aspects or Methods of Project Appraisal

- 3.7 Meaning of Financial Analysis
  - 3.7.1 Method of Financial Analysis
  - 3.7.2 Ratio Analysis
  - 3.7.3 Break-even Analysis
  - 3.7.4 Importance of Break-even Analysis
  - 3.7.5 Limitations of Break-even Analysis
  - 3.7.6 Profitability Analysis
  - 3.7.7 Social-Cost Benefit Analysis
  - 3.7.8 Budget and Planning Process
- 3.8 Summary
- 3.9 Glossary
- 3.10 Self Assessment Questions
- 3.11 Lesson End Exercise
- 3.12 Suggested Readings

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### **3.1 INTRODUCTION**

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Projects are the building blocks built to meet the enterprises objectives and as such effective project management is required to complete the project in scheduled time and within resources earmarked. Efficient and effective project management is required for the success of the enterprise. An enterprise is based on a project. The success/failure or future of an enterprise is largely dependent upon the project. The dictionary meaning of a project is that it is a scheme, design, a proposal of something intended or devised to be achieved. Innovation and vision form an integral aspect of a project programme. An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/Her decision making process starts with project/product selection. The project selection is the

first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb “well began is half done” applies to project selection also indicates the significance of good beginning.

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### 3.2 OBJECTIVES

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After going through this lesson, you should be able to:

- Explain the concept of project and classification of projects.
- Describe financial analysis and ratio analysis
- Explain break-even analysis and its importance
- Discuss in detail project design and project appraisal

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### 3.3 MEANING OF PROJECT

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A project is an idea or plan that is intended to be carried out. The dictionary meaning of a project is that it is a scheme, design, a proposal of something intended or devised to be achieved.

Various definitions of ‘project’ are—

According to **Newman, Summer and Warren**, “A project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission”.

According to **Gillinger**, “Project is the whole complex of activities involved in using resources to gain benefits”.

According to **World Bank**, “Project is an approval for a capital investment to develop facilities to provide goods and services.

According to **Encyclopaedia of Management**, “A project is an organised unit dedicated to the attainment of a goal, the successful completion of a development project on time, within budget, in conformance with pre determined programme specifications.”

A project can thus be defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time.

The three basic attributes of a project are—

- a. A scientifically evolved course of action.
- b. Specific Objectives.
- c. Definite time perspective.

According to **James P. Lewis**, “A project is one time job that has defined starting and ending dates, a clearly defined objective or scope of work to be performed, a predefined budget and usually a temporary organisation that is dismantled once the project is completed”.

### **3.3.1 Characteristics of a Project**

A project is an economic activity with well defined objectives and having a specific beginning and end. It should be amenable to planning financing and implementation as a unit where both costs and returns are measurable. A well planned project includes a correct consideration of alternatives, identification of key issues, wider participation, compactness and enforceability. The main features of a project are—

- 1. Single definable purpose, end-item or result.** This is usually specified in terms of cost, schedule and performance requirements.
- 2. Every project is unique.** It requires the doing of something different, something that was not done previously. Even in what are often called “routine” projects such as home construction, the variables such as terrain, access, zoning laws, labour market, public services and local utilities make each project different. A project is a one-time, once-off activity, never to be repeated exactly the same way again.
- 3. Projects are temporary activities.** A project is an ad hoc organization of staff, material, equipment and facilities that is put together to accomplish a goal. This goal is within a specific time-frame. Once the goal is achieved, the organization created for it is disbanded or sometimes it is reconstituted to begin work on a new goal (project).

4. **Projects cut across organizational lines.** Projects always cut across the regular organizational lines and structures within a firm. They do this because the project needs to draw from the skills and the talents of multiple professions and departments within the firm and sometimes even from other organizations. The complexity of advanced technology often leads to additional project difficulties, as they create task interdependencies that may introduce new and unique problems.
5. **Projects involve unfamiliarity.** Because a project differs from what was previously done, it also involves unfamiliarity. And oft time a project also encompasses new technology and, for the organization/firm undertaking the project, these bring into play significant elements of uncertainty and risk.
6. **The organization usually has something at stake when undertaking a project.** The unique project “activity” may call for special scrutiny or effort because failure would jeopardize the organization/firm or its goals.
7. **A project is the process of working to achieve a goal.** During the process, projects pass through several distinct phases, which form and are called the project life cycle. The tasks, people, organizations, and other resources will change as the project moves from one phase to the next. The organizational structure and the resource expenditures build with each succeeding phase; peak; and then decline as the project nears completion.

### 3.3.2 Objectives of a Project

A project is a proposal for investment to create, expand and/or develop certain facilities in order to increase production of good and/or services for a community during a certain period of time. The basic objectives for initiating a project by an entrepreneur may be:

1. Maximisation of stakeholders’ wealth or market value of equity shares.
2. Increased production/pf goods and/or services.

3. Enlarging the capacity of existing projects.
4. Increasing the productivity of goods and services.
5. Increasing the internal rate of return at low risk.
6. They must be consistent with organisational plans, policies and procedures.
7. They must be measurable tangible and verifiable from time to time.
8. These project objectives must be in tune with the present or anticipated resources.

### **3.3.3 Classification of Projects**

Different authorities have classified projects in different ways. Following are the major classifications of projects.

**1. Quantifiable and Non-Quantifiable projects.** Little and Mirrless have divided projects under two main heads i.e. quantifiable projects and non-quantifiable projects. Quantifiable projects are those projects in which quantitative estimation of benefits can be made. Projects concerned with industrial development, power generation, and mineral development come in this category. Non quantifiable projects are those projects where such an estimation or assessment is not possible. Projects concerning health, education and defence fall in the category of non quantifiable projects.

**2. Sectoral Projects.** Sectoral projects as a criteria has been accepted by the Planning Commission of India for the classification of projects. As per this classification a project may

fall in any one of the following sector

- (i) Agriculture and Allied sector .
- (ii) Irrigation and Power sector
- (iii) Industry and mining sector
- (iv) Social services sector

- (v) Miscellaneous sector.

Sectoral basis of classification has been found useful in resource allocation at macro level.

**3. Techno-Economic Projects.** Projects can also be classified on the basis of their techno-economic characteristics. There can be three main group of classification under this head

- i. Factor-Intensity—oriented classification.** On the basis of intensity classification projects may be classified as capital intensive or labour intensive. If large scale investment is made in plant and machinery, the project will be classified as capital intensive. On the other hand projects involving large number of human resources will be called labour intensive.
- ii. Causation Oriented Classification.** Under this head projects can be classified as demand based or raw material based projects. The existence of demand for certain goods or services makes the project demand based and the availability of certain raw materials, skills or other inputs makes the project raw material based project.
- iii. Magnitude Oriented Classification.** Size of investment becomes the basis for classification of projects. Projects can be classified as large scale, medium scale or small scale projects depending upon the project investment.

**4. Financial Institutions Classification.** Various national and state level financial institutions classify the projects as per their standing and the purpose for which the project is taken up. Projects under this head can be divided into:

- i) New Projects
- (ii) Expansion Projects
- (iii) Diversification Projects

- (iv) Modernisation Projects

The basic motive of these projects is to generate profit.

5. **Miscellaneous Projects.** Under this category projects can be classified as under:

- (i) Service Projects
- (ii) Welfare Projects
- (iii) Educational Projects
- (iv) Research and Development Projects.

#### **3.3.4 Importance of Projects**

Importance of projects can be highlighted with the following main points.

1. Project serve as catalytic agents of economic development and growth.
2. Projects initiate the process of development i.e. production, employment, income generation and so on.
3. Projects provide framework for future activities of the enterprises.
4. Projects also determine the nature of future pattern of services.
5. Projects facilitate development of basic infrastructure and environment.
6. Project identification brings about necessary changes in society over period of time.
7. Projects help in accelerating the pace of socio-cultural development.

After gaining knowledge about the current business environment and the role of small scale sector, an enterprising individual can think in terms of taking certain concrete steps for setting up his own enterprise. Government, through its various promotional agencies assists potential entrepreneurs in setting up their units. The new class of techno-entrepreneurs is more awakened and have got strong urge to do something at their own.

They have got the right training knowledge and are prepared to assume risks for setting up their own enterprises.

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### **3.4 MEANING OF PROJECT REPORT**

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Project report is a proposal for creation of productive capacities for manufacturing goods or providing services. Project report is a written statement of what an entrepreneur proposes to take up. Preparation of project report clarifies to the entrepreneurs various processes which are necessary for setting up and managing a new business venture. This report helps entrepreneur to have disciplined thinking and advance planning. It is not merely a document covering precise details in respect of financial and economic viability rather it is a projection of performance based on certain assumptions.

A project report contains the information starting from very general issues to detailed examination of specific issues/relating to entrepreneur's qualification, particulars of his unit, market demand and sources of supply of raw material, capacity of the plant, means of financing, marketing and selling arrangements cost and profitability of the project. The project report appraisal by the financial institutes covers the following.

- (a) The information contained in the project report about the promoters themselves reveals their managerial and entrepreneurial capabilities. At least the financial institutions get the idea whether the entrepreneur is competent and resourceful to hire and use the required managerial resources.
- (b) Every small unit comes into existence for promotion of certain socio-economic benefits like providing employment opportunities, reducing regional imbalances, diversification of industries and earning ox foreign exchange through exports. Financial institutions finance only those promoters whose project reports are relatively better than others in terms to socio-economic benefits likely to accrue due to the implementation of the proposed project.

- (c) The project report contains the information about market potential of the product and projection of short and long term demand of the proposed product.
- (d) The project report should contain information about technical feasibility of the product. Various queries or aspects scanned under this head are technical viability, break even point, alternate technologies available, suitability of proposed technology, project flexibility, diversification possibilities, availability of necessary inputs and manpower to operate available machines. If the response to the above queries is positive in the project report the project is considered technically feasible.
- (e) Financial institutions are equally concerned with the financial viability of the project. The project report should highlight financial viability. Various short and long term ratios should constitute the integral part of the project report. Capital expenditure and working capital requirements should be clearly stated. Length of working capital cycle should be estimated. Project report should also show the repayment capacity of the project. How many projections are required to be made in the project report will depend upon the size of the unit and the extent of competition in the market.

### **3.4.1 Stages of Project Report**

Project reports of small scale enterprises is not as sophisticated as in the case of project reports of large scale units. The Information provided in the project report of one small scale unit may be on different lines compared with the project report of another small scale undertaking. Mr. Vinod Gupta in his study on 'Formulation of a Project Report' divides the process of project development into eight distinct and sequential stages.

These stages are:

#### **(1) General Information.**

- (i) Biodata of promoter i.e. name, address, qualifications, experience and other capabilities of the entrepreneur/entrepreneurs,

- (ii) Industry profile i.e. the industry to which the project belongs, past performance, present status, its problems etc.
  - (iii) Constitution and Organisation covering organisational structure and constitution i.e. registration etc.
  - (iv) Product details, Product utility, range, design and relative advantages.
- (2) **Project Description.** Covering details w.r.t the site i.e. location of enterprise, physical infrastructure i.e. availability of raw material, skilled labour, power fuel, water, pollution control, communication network, transport facilities, production process, machinery and equipment, capacity of the plant, selected technology, research and development etc.
- (3) **Market Potential.** Covering details like demand and supply position, expected price, marketing strategy, after sale service, transportation, etc.
- (4) **Capital Costs and Sources of Finance.** Estimate containing various components of capital like land & building, plant and machinery, installation cost preliminary expenses, margin for working capital etc. The various sources of finance should be stated mentioning clearly owner's contribution and funds raised from financial institutions.
- (5) **Assessment of Working Capital.** The requirement for working capital and its sources of supply, length of working capital cycle should be estimated and mentioned.
- (6) **Other-Financial Aspects.** For judging profitability of the project a projected Profit & Loss Account indicating sales revenue, cost of production, allied cost and profit should be prepared. A projected balance sheet, cash-flow statement should be prepared. Break-even analysis should also be shown in the project report.
- (7) **Economic and Social Valuables.** Various socio economic benefits expected from the project should be included in the project report. Various benefits can be employment generation, import substitution, exports, local resource utilisation, development of area etc. Arrangement made for treating the effluents and emissions should be stated in the report.

**(8) No Objection Certificate.** For obtaining 'No Objection Certificate' an entrepreneur has to apply to the Directorate of Industries or the office of DIC. The following documents are to be furnished for obtaining 'No Objection Certificate' (NOC).

- (i) Duly filled up prescribed application form
- (ii) Legal documents of the location of the unit.
- (iii) Certificate showing the industrial unit in the conforming zone.
- iv) In case the industrial unit is located in an industrial estate, a proof or certificate indicating that the industrial estate is approved by the government.
- (v) Detailed scheme of the proposed product and the production processes.
- (vi) Detailed list of machinery and equipments.
- (vii) List of raw materials.
- (viii) Documents of the constitution of the unit.
- (ix) Electricity license documents.
- (x) Ownership deed of the premises of the unit and the area of the unit.
- (xi) Justification for 'No Objection Certificate'.
- (xii) Reserve Bank of India Challan of the required amount.

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### **3.5 PROJECT DESIGN/PLAN**

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A project design is a formal document designed to guide, control and execution of a project. A project design is the key to a successful project and is the most important document that needs to be created when starting any business project.

A project design is used for the following purposes:

- To document and communicate stakeholder products and project expectations
- To control schedule and delivery

- To calculate and manage associated risks

A project Design/Plan answers the following basic questions regarding the project:

- Why? - What is the task related to the project? Why is the project being sponsored?
- What? - What are the activities required to successfully complete the project? What are the main products or deliverables?
- Who? - Who will take part in the project and what are their responsibilities during the project? How can they be organized?
- When? - What exactly is the project schedule and when can the milestones be completed?

Project initiation requires detailed and vital documentation to track project requirements, functionalities, scheduling and budget. Poor documentation can lead to disastrous results for all project stakeholders. Formal project plans establish detailed project requirements, including human and financial resource, communications, projected time lines and risk management.

A project plan/design is a formal agreement between the project procurer and developer. It documents and ensures mutual project stakeholder approval while assisting management and technical terms with project tracking.

### **3.5.1 Project Design and Formulation**

The five major stages of the project cycle are **identification, preparation, appraisal, implementation and evaluation**. The first two stages are largely the responsibility of government, which may intend to finance a project from its own resources or to seek external assistance, though donor agencies may play an influential role.

The process identification involves, the following steps:

- Preliminary stakeholder analysis
- Problem analysis

- Setting of objectives
- Analysis of alternatives
- Accountability analysis
- Logical framework thinking
- Analysis of assumptions and associated risks
- Progress indicator definition
- Stakeholder review

It can be powerfully argued that this is the most critical stage of the cycle. If the potential of the most viable concepts are overlooked at identification there is little prospect that they will be retrieved at a later stage, when the emphasis shifts from examining options to filling in the details of a specific proposal. It can be costly and difficult to abort or radically revise the preparation of a project once underway.

Economists often think in terms of **resources, opportunities, & constraints**, and this provides an analytical framework with which to generate project ideas.

#### **i. Project identification**

In practice, project ideas often result from the identification of

- a discrete set of activities identified as important within programme-based activities, a country's poverty reduction strategy and/or sector-wide approach
- problems or constraints in the development process caused by shortages of essential facilities, services, and material or human resources and by institutional or other obstacles.
- unused or underused material or human resources and opportunities for their conversion to more productive purposes; or, conversely, overused natural resources that need to be conserved or restored.

– unsatisfied demands or needs and possible means to meet them including opportunities arising from new technology or technological development, for example, the internet and mobile telephony.

– the need to complement other investments (such as providing railway and port links for a mining project, transport, packing and marketing facilities for an agricultural development project, or access roads for a sugar factory and bio-ethanol plant)

**Project ideas may also emanate from**

– initiatives by local private or public entrepreneurs who wish to take advantage of opportunities they perceive or who are responding to government incentives

– community initiatives (often supported by national or international NGOs)

– a government response to local political or social pressures originating, for example, from economic, social, or regional inequalities

– a need for advocacy aimed at government in a weak policy environment

– the pursuit of national objectives such as food security

– the occurrence of natural events (drought, floods, earthquakes) and the short-term responses to crisis

– as a response to long-term trends such as migration, environmental degradation, and climate change

– a desire to create a permanent local capability to carry out development activities by building up local institutions

Finally, project ideas originate not only from within a country but also from abroad as a result of

– investment proposals of multinational firms

– programming activities of bilateral and multilateral aid agencies and their ongoing projects in the country

– influence of investment strategies adopted by other developing countries as well as opportunities created by international agreements (for example, on the use of offshore resources)

– prevailing professional opinion or public consensus within the international community in such fields as population, environment, and the alleviation of poverty

It should also be noted that the idea of project identification as transparent, purely technocratic and objective does not always hold true. Project identification can be highly political, involving powerful groups which conflict and bargain in their attempts to manipulate the agenda for public action.

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### **3.6 PROJECT APPRAISAL**

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Project appraisal is the analysis of costs and benefits of a proposed project with a goal of assuring a rational allocation of limited financial resources amongst alternate investment opportunities with the objective of achieving specific goals. Project appraisal is important because the number of projects to satisfy the identified needs would exceed the available resources and selection amongst alternate projects is to be made for achieving desired goals. Project appraisal enables the lending financial institution to make an independent and objective assessment of various aspects of an investment proposition to arrive at the financing decision. The various factors considered by financial institution while appraising a project are technical, financial, economic, commercial, social and managerial.

Project appraisal is the process of transmitting information accumulated through feasibility studies into a comprehensive form in order to enable the decision maker undertake a comprehensive appraisal of various projects and embark on a specific project or projects by allocating limited resources. Since risk is involved in all activities associated with the project, project appraisal aims at improving the quality of projects and their long term profitability, aims at minimising the risk of lending by rectifying their weaknesses and improving their effectiveness into them incorporating into them safeguards missed by the promoters because of their -lack of knowledge or information.

There is lot of confusion regarding appraisal and evaluation of a project. Various points of difference are :

1. Evaluation is a comparative study whereas appraisal is an independent examination.
2. Appraisal is undertaken in the first stage whereas evaluation comes thereafter.
3. Appraisal helps in bringing out facts whereas evaluation helps in arriving at conclusion.

### **3.6.1 Objectives and Scope of Project Appraisal**

Project appraisal is undertaken for exact analysis of a designed scheme. It identifies and estimates the expected costs and benefits of a project. Project appraisal is a conscious scrutiny which helps to design a conceptual framework that aids in monitoring and evaluating future actions.

Various objectives of project appraisal are as under:

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

Project appraisal from engineering and technology aspects can cover the following:

- (i) Options available regarding appropriate technology.
- (ii) Technology collaboration arrangements signed, if any.
- (iii) Proposed scale of operation.
- (iv) Location and infrastructural aspects.
- (v) Pollution Control, effluent disposal and utilisation of bye-products.

- (vi) Selection of plant & equipment.
- (vii) Factory building and plant layout,
- (viii) Project cost and its comparison with similar projects.
- (ix) Appraising project cost estimates and profitability projections.

Different aspects of a project are not independent entities but in reality are inter-related and a project appraisal is incomplete without comprehensive study of different aspects. Banks and other financial institutes are keen to examine the viability of a project before taking decision regarding extending any financial assistance. These institutes are concerned with the safety of their loans and return on investment. The surplus generated from project should be enough to repay principal amount of loan and interest thereon over a period of time.

### **3.6.2 Significance of Project Appraisal**

Project appraisal is useful in the following ways:

- (i) It helps in arriving at specific and predicted results.
- (ii) It evaluates the desirability of the project.
- (iii) It provides information to determine the success or failure of a project,
- (iv) It employs existing norms to predict the rate of success or failure of a project.
- (v) It verifies the hypothesis framed for the project.

### **3.6.3 Aspects or Methods of Project Appraisal**

Which can be considered for knowing the viability of the project are:

1. Economic Appraisal
2. Technical Appraisal
3. Financial Appraisal

4. Managerial Appraisal
5. Operational Appraisal/Market Appraisal
6. Environmental Appraisal
1. **Economic Appraisal**

Appraisal of economic aspects is most important because even the bank will not finance a project unless it is satisfied that the project reflects a high priority use of region's resources. This appraisal is not confined to purely financial analysis and the project is examined from the view point of the whole economy. An effort is made to find out as to whether the benefits associated with the project are more than the project cost for justifying investment made on it. The economic benefits brought about by successful project result in increase in output. The increased productivity will be reflected in more income and employment of workers, more government revenues, and higher earnings for owners of capital etc.

Socio-economic appraisal of the project is done when projects are formulated to achieve social objectives of the government. Such appraisal is done for development and infrastructural projects usually by emphasising the economic, technical and financial factors to ensure that the selected projects meet all the necessary expected requirements. Various aspects of the project considered are:

- (i) Contribution of the project to Gross Domestic Productivity of the economy,
- (ii) Assistance in economic development.
- (iii) Ensuring optimum utilisation of the scarce resources of the economy,
- (iv) Safeguarding Environment i.e. environment friendly,
- (v) Creation of employment opportunities,
- (vi) Benefits accruing to rural and poor people.

The economic appraisal should cover as to whether the project fits into national priorities, contributes to the development of desired sector of economy and other benefits justify the allocation of scarce resources of the economy. This appraisal is called Social Cost Benefit Analysis (SCBA). This concept of SCBA was evolved by Jules Dupuit, a French engineer, who referred to it in his paper on measurement of “Utilities of public works”. Flood Control Act of 1936 of USA provided that a project should be deemed feasible only if sum total of benefits to whom so ever they may accrue exceed the estimated costs, highlighting the social nature of investment decisions. India has taken lead amongst third world countries in applying SCBA in appraising projects especially in public sector.

SCBA also referred to as economic analysis is a methodology developed for evaluating investment projects from the point of view of the society as a whole. The need for SCBA has been felt due to the following reasons.

**(a) For Evaluating Investments**

In developing countries, where governments are playing a significant role in economic development. SCBA is used for evaluating public investments. SCBA can also be used for evaluating private investments especially in those countries where these are to be approved by governmental agencies, keeping in mind the impact of these investments on national interests.

**(b) Evaluating Individual Projects**

SCBA assists in appraising individual projects within the planning framework which spells out national economic objectives, and allocation of resources to different sectors. SCBA is concerned with tactical decision making within the framework of broad strategic choices defined by planning at macro level.

**(c) External Aspects**

A project may be a boon or bane for the neighbouring areas i.e. it may result in benefiting the neighbouring areas by way be development of ancillary industry and development of the area or it can have adverse effect on the ecology and environment. In SCBA all costs and benefits irrespective to whom they accrue are considered.

**(d) Taxes and Subsidies**

In financial analysis, taxes are considered as monetary costs and subsidies are treated as monetary gains. In SCBA taxes and subsidies are generally considered as transfer payments and hence regarded as irrelevant.

**(e) Consumption and Savings**

In financial analysis a private sector firm will not give differential value to consumption and savings. On the other hand the concern of society for savings and investment is duly reflected in SCBA wherein a higher valuation is placed on savings and lower valuation is put on consumption. UNIDO (United Nations Industrial Development Organisation) has come out with a comprehensive framework for SCBA and it involves five stages.

- (i) Calculation of financial profitability of the project measured at market prices.
- (ii) Obtaining the net benefit of project measured in terms of economic prices.
- (iii) Adjustment for the impact of project on savings and investments.
- (iv) Adjustment for the impact of project on income distribution.
- (v) Adjustment for the impact of project on merit goods and demerit goods whose social values differ from their economic values.

India has been one of the pioneers in the use of SCBA for public sector projects. ICICI was the first financial institution to introduce economic appraisal of projects and was followed by IFCI & IDBI. Project Appraisal Division of Planning Commission also follows economic analysis.

**2. Technical Appraisal**

Technical appraisal covers technical feasibility of the project which includes the study of adequacy of the proposed plant and equipment to produce the products within the prescribed norms. It is to be ascertained as to whether the technical know how is available

with the entrepreneur or it is to be procured from elsewhere. In case of foreign technical collaboration the entrepreneur needs to be aware of legal provisions in force from time to time specifying the list of products for which such collaboration is allowed under specific terms and conditions. Appraisal of technical feasibility of the project covers the following.

- (i) Location of the project.
- (ii) Availability of infrastructural facilities like water, power, transport, communication, and repair shops etc.
- (iii) Availability of raw material as per required quantity and quality.
- (iv) Availability of right type of work force in requisite member.
- (v) Manufacturing process or technology selected.
- (vi) Technical collaboration arrangements made if any and their details.
- (vii) Size of the project or scale of operation.
- (viii) Layout of the plant.
- (ix) Rate of obsolescence.

In nutshell technical appraisal refers to the review of product mix, production capacities, process of manufacture, location of plant, sources of raw materials, building, plant & equipment, manpower requirement, technical collaboration, if any, infrastructural facilities like roads, bridges, railways, airways, water, power & other facilities, availability of research and development facilities for updating and uprating of project.

### **3. Financial Appraisal**

Financial appraisal is one of the most important prerequisite for the setting up an enterprise. Since all the business activities revolve around finance, the importance of financial aspect cannot be underestimated. Successful implementation of a project proposal depends upon proper financial planning and appraisal. A detailed coverage of financial aspects such as cost estimates, production costs and profitability analysis is required for examining the viability of the project. After identifying the association of costs and expected revenues an

entrepreneur tries to evaluate the project by using any or combination of the following methods.

**(i) Pay Back Period**

Pay back period is the time required to recover the original investment through income generated from the project. Pay back period is very simple and widely used method for profitability analysis of a project. It can be calculated with the following formula.

Pay back period = Original Cost of investment/Annual Cash inflows

The annual cash inflows will be computed as gross earnings less total operating cost excluding depreciation. In case annual income is not uniform, the payback period will be counted as the number of years over which the income accumulated together will equal the original money invested.

**Merits**

- i) This method is best suited where the project has shorter gestation period and project cost is also less,
- ii) This method is easy to operate and simple to understand,
- iii) It is best suited for high risk category projects. Which are prone to rapid technological changes,
- iv) It enables entrepreneur to select an investment which yields quick return of funds.

**Limitations**

- (i) Pay back period method emphasises more on liquidity than profitability.
- (ii) It does not cover the earnings beyond the pay back period, which may result in wrong selection of investment projects,
- (iii) It is suitable for only small projects requiring less investment and time,

- (iv) This method ignores the cost of capital which is very important factor in making sound investment decisions.

**(ii) Average Rate of Return**

This method is considered better than pay back period method because it considers Investment (ROI) method. This method relates earnings to investment and formula for calculating return on investment is

$$\text{Return on Investment} = \frac{\text{Average Annual Earnings After Tax}}{\text{Average Book Investment After Depreciation}}$$

The average return on earnings is calculated by adding all the earnings after tax and dividing them by the project's economic life. Average investment is the simple average of the values of assets at the beginning and end of the useful life of the asset.

**Merits.**

- (i) It is simple to calculate and easy to understand,
- (ii) It considers earning of the project during its entire operative life,
- (iii) It helps in comparing the projects which differ widely,
- (iv) This method considers net earnings after depreciation and taxes.

**Limitations**

- (i) It ignores time value of money.
- (ii) It lays more emphasis on profit and less on cash flows.
- (iii) It does not consider reinvestment of profit over years.
- (v) It does not differentiate between the sizes of investments required for different projects.

### **(iii) Net Present Value Method**

This method considers the time value of money. This method highlights that a rupee today has a higher value than a rupee after a year from now. The present value of a rupee of next year is going to be less by one year's interest or the future amounts will be required to be discounted by the applicable interest rates to determine their present value. The present value of a future cash flow is calculated with following formula.

$$\text{Present Value} = S \times 1/(1 + r)^t$$

Where 'S' denotes cash flow

't' denotes year

'r' denotes to interest rate/discount rate.

Net present value for any project is the aggregate present value of net cash flows over the operating life of the project.

#### **Merits**

- (i) This method introduces the element of time value of money and as such is a scientific method of evaluating the project
- (ii) This method covers the whole project from start to finish and gives more accurate figures.
- (iii) It indicates all future flows in today's value. This makes possible comparison between two mutually exclusive projects.
- (iv) It takes into account the objective of maximum profitability.

#### **Limitations**

- (i) It is difficult method to calculate and use.
- (ii) It is biased towards short run projects.

- (iii) In this method profitability is not linked to capital employed.
- (iv) It does not consider non-financial data like the marketability of the product.

**(iv) Profitability Index**

Profitability index is the ratio of present value of expected future cash inflows and initial cash outflows.

Profitability Index = Present Value of Cash Inflows/Present Value of Cash Outflows  
Projects having profitability index of more than one should be selected. If choice amongst two or more projects is there, projects with highest profitability index should be preferred over other projects.

**Merits**

- (i) It is conceptually sound.
- (ii) It considers time value of money.
- (iii) It facilitates ranking of projects which helps in the selection of projects.

**Limitations**

- (i) It is vulnerable to different interpretation.
- (ii) Its computation process is complex.

**(v) Internal Rate of Return (IRR)**

This method is known by various other names like yield on investment method or rate of return method. This method is used when the cost of investment and the annual cash inflows are known and rate of return is to be calculated. It takes into account time value of money by discounting inflows and cash flows. IRR defined as that rate of return when used to discount the cash flows of investment, reduce its NPV (Net Present Value) to zero. In order to calculate the IRR, the net cash flow is to be determined by deducting the costs other than depreciation from the annual sales. Secondly capital cost is obtained and lastly the present value of the net cash flow is calculated by using an appropriate rate of interest.

## **Merits**

- (i) It recognises the time value of money and considers cash flows over entire life of the project.
- (ii) It has a psychological appeal to the user as values are expressed in percentages.
- (iii) It is consistent with the firm's objective of maximising owner's welfare.

## **Limitations**

- (i) It is difficult to understand and use.
- (ii) The accuracy of decision making depends on the extent of accuracy of future financial projections.
- (iii) It assumes that the reinvestment rate of cash flows is at IRR which may be different for different projects considered by a firm.

## **4. Managerial Appraisal**

The success of a venture depends to a great extent on the competence of management. If the management is incompetent, even a good project may fail. Financial institutions take utmost care in appraising managerial aspect before making any financial commitment for a project. To judge the managerial capability of promoters, an appraisal should be made regarding their resourcefulness, understanding and commitment. The resourcefulness of the promoters can be judged on the basis of their past experience, the progress achieved in organising various aspects of the project and the skill with which the project is presented. The understanding of the promoters is assessed in terms of the credibility of project plan, covering the organisation structure, the estimated costs, the financial pattern, the assessment of various inputs and the marketing programme and details furnished to financial institutions. The commitment of the promoters is judged by the resources, financial, managerial etc. applied to the project and the zeal with which the objectives of the project are pursued. Managerial appraisal not only covers the managerial capability of promoters but also includes the assessment of the calibre of the key technical and managerial personnel working

on the project, the schedule for training them and the remuneration structure for rewarding and motivating them. In case proper appraisal of managerial aspect is made in the beginning, future problems to a large extent can be avoided. It is important that the overall background of promoters, their qualifications, skill and industrial experience their past performance etc. are looked into to assess their capabilities for implementing the project for which financial assistance has been sought.

### **5. Operational Market Appraisal**

It helps in analysing the capability of the project. The marketing research provides the basic input for deciding the installed capacity requirement for the project. The capability of the project must be sufficient to meet the demand for the entire spectra of plant product mix. To bring maximum benefit to the promoters, market analysis should cover the following major aspects:

- (a) Analysing the market opportunity and specifying marketing objectives. Here an attempt is made to answer the following questions for knowing market potential of a product.
  - (i) Who will buy the product?
  - (ii) When they will buy?
  - (iv) How much they will buy?
  - (v) At what price they will buy?
  - (vi) From where they will buy?
- (b) Planning the process of marketing the product.
- (c) Organising the marketing process.
- (d) Controlling the execution of the marketing plan which facilitates taking corrective action whenever actual results deviate from expectations or estimates.

An intensive scanning and analysis of the proposed environment in which the industrial unit has to function should form the basis for analysing market opportunities as well as for

specifying marketing strategies. The operational appraisal forecasts a progressive build up on capacity utilisation over the initial years of operation of the project and targets an initial period of 3-4 years within which the facility must attain its final capacity utilisation level. The progressive built up of capacity utilisation is translated into the number of shifts of operations that is required of each major plant and machinery and broad requirement of manpower at different stages of capacity utilisation is assessed.

## **6. Environmental Appraisal**

Environment is defined to include everything external to man. It includes region, surroundings or circumstances in which anything exists. Environmental management refers to environmental planning, protection, monitoring, assessment, research, education, conservation of resources etc. All human activities may be economic, social or anything else are essentially aimed at satisfying needs and wants of man through altering and using environmental resources. Production oriented projects refer to those projects which produce physical goods like cement paper steel, chemicals fertilisers etc. These projects convert the natural resources into saleable and exchangeable products. Thus they cause a large number of physical changes and disruptions on environment. Service oriented projects are concerned with rendering different types of services such as education, health, power, defence, banking & insurance etc. Most of these projects are non physical in nature and do not directly affect the environment.

A wide range of legislations have come into force for effective environment management. It has now become mandatory to obtain environmental clearance for all major projects on the basis of their environmental impact statement.

After completion of comprehensive appraisal of a project on the basis of technical, financial, economic, managerial, operational and environmental aspects, the financial institutions or lending institutes may advise the entrepreneur to submit detailed project proposal. The financial institutions task does not end with proper appraisal and sanction of financial assistance. For proper implementation of a project, the financial institutions should ensure prompt disbursement, close supervision and follow up action. Project appraisal thus paves way for getting the clearance for project implementation.

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### 3.7 MEANING OF FINANCIAL ANALYSIS

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

- It is performed by professionals who prepare report using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions.
- Continue or discontinue its main operation or part of its business;
- Make or purchase certain materials in the manufacture of its product;
- Acquire or rent/lease certain machineries and equipment in the production of its goods;
- Issue stocks or negotiate for a bank loan to increase its working capital; Make decisions regarding investing or lending capital;
- Other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

#### **Goals**

Financial analysts often assess the following elements of a firm:

- i. Profitability** - Its ability to earn income and sustain growth in both the short-and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations;
- ii. Solvency** - its ability to pay its obligation to creditors and other third parties in the long-term;
- iii. Liquidity** - its ability to maintain positive cash flow, while satisfying immediate obligations;

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

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

### **3.7.1 Method of Financial Analysis**

Financial analysts often compare financial ratios (of solvency, profitability, growth, etc.):

- **Past Performance**- Across historical time periods for the same firm (the last 5 years for example),
- **Future Performance** -I Using historical figures and certain mathematical and statistical techniques, including present and future values! This extrapolation method is the main source of errors in financial analysis as past statistics can be poor predictors of future prospects.
- **Comparative Performance** - Comparison between similar firms.

### **3.7.2 Ratio Analysis**

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

Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages. In addition, ratios can be used in a form of trend analysis to identify areas performance has improved or deteriorated over time.

Because Ratio Analysis is based upon Accounting information, its effectiveness is limited by the distortions which arise in financial statements due to such things as Historical Cost Accounting and inflation. Therefore, Ratio Analysis should only be used as a first step in financial analysis, to obtain a quick indication of a firm's performance and to identify areas which need to be investigated further.

The pages below present the most widely used ratios in each of the categories given above. Please keep in mind that there is not universal agreement as to many of these ratios should be calculated. You may find that different books use slightly different formulas for the computation of many ratios. Therefore, if you are comparing a ratio that you calculated with a published ratio or an industry average, make sure that you use the same formula as used in the calculation of the published ratio.

### **Debt Management Ratios**

Debt Management Ratios attempt to measure the firm's use of Financial Leverage and ability to avoid financial distress in the long run. These ratios are also known as Long term Solvency Ratios.

Debt is called Financial Leverage because the use of debt can improve returns to stockholders in good years and increase their losses in bad years. Debt generally represents a fixed cost of financing to a firm. Thus, if the firm can earn more on assets which are financed with debt than the cost of servicing the debt then these additional earnings will flow through to the stockholders. Moreover, our tax law favours debt as a source of financing since interest expense is tax deductible.

With the use of debt also comes the possibility of financial distress and bankruptcy. The amount of debt that a firm can utilize is dictated to a great extent by the characteristics of the firm's industry. Firms which are in industries with volatile sales and cash flows cannot utilize debt to the same extent as firms in industries with stable sales and cash flows. Thus, the optimal mix of debt for a firm involves a tradeoff between the benefits of leverage and possibility of financial distress.

## Debt Equity Ratios

The Debt Ratio, Debt-Equity Ratios, and Equity Multiplier are essentially three ways of looking at the same thing: the firm's use of debt to finance its assets. Expressed as a percentage, the debt-to-equity ratio shows the proportion of equity and debt a firm is using to finance its assets, and the ability for shareholder equity to fulfill obligations to creditors in the event of a business decline. A low debt-to-equity ratio indicates lower risk, since debt holders have fewer claims on the company's assets. A higher debt-to-equity ratio, on the other hand, shows that a company has been aggressive in financing its growth with debt, and there may be a greater potential for financial distress if earnings do not exceed the cost of borrowed funds. The Debt Ratio is calculated by dividing Total Debt by Total Assets. The Debt-Equity Ratio is calculated by dividing Total Debt by Total Owners' Equity. The Equity Multiplier is calculated by dividing Total Assets by Total Owners' Equity.

To calculate debt-to-equity, divide total liabilities by total shareholders' equity:

Debt-to-equity ratio = total liabilities / total shareholders' equity

For example, the balance sheet for Coca-Cola Co (KO) for the first quarter of 2014 shows (in millions) total liabilities of \$58,635 and total shareholders' equity of \$32,654. Using the above formula, the debt-to-equity ratio for KO can be calculated as:

Debt-to-equity =  $\$58,635 / \$32,654 = 1.8$  (or 180%)

This means that KO has \$1.80 of debt for every dollar of equity. During the same quarter, PepsiCo Inc (PEP) had a debt-to-equity ratio of 1.4, Dr Pepper Snapple Group Inc (DPS) had a ratio of 1.21, and the industry average for non-alcoholic beverages was 1.22, a new high for the industry, indicating that the industry (on average) is using more leverage to finance its assets. At 1.8, KO's debt-to-equity ratio is higher than both the industry average and at least two similar companies.

The debt-to-equity ratio can help investors identify companies that are highly leveraged and that may pose a higher risk. Investors can compare a company's debt-to-equity ratio against industry averages and/or other similar companies to gain a general indication of a company's equity-liability relationship. As with other financial ratios, it is more useful to

compare various companies within the same industry than to look at only one company, or to attempt to compare companies from different industries. In addition, investors should consider more than one ratio (or number) when making investment decisions since one ratio cannot provide a comprehensive view of the company.

### **Debt Service Coverage Ratio**

This ratio is one of the most important ones which indicates the ability of an enterprise to meet its liabilities by way of payment of installments of Term Loans and Interest thereon from on the cash accruals and forms the basis for fixation of the repayment schedule in respect of the Term Loans raised for a project (The ideal DSCR Ratio is considered to be 2)

$$\frac{\text{PAT} + \text{Dep} + \text{Annual Interest on Long Term Loans and Liabilities}}{\text{Annual interest on Long Term Loans and Liabilities} + \text{Annual Instalments payable on Long Term Loans and liabilities}}$$

Annual interest on Long Term Loans and Liabilities + Annual Instalments payable on Long Term Loans and liabilities

(Where PAT is profit after Tax and Dep. is Depreciation)

Ratio analysis is a concept or techniques which is as old as accounting concept. Financial analysis is a scientific tool. It has assumed important role as a tool for appraising the real worth of an enterprise, its performance during a period of time and its pit falls. Financial analysis is a vital apparatus for the interpretation of financial statements. It also helps to find out any cross sectional and time series linkage between various ratios.

Ratio-analysis means the process of computing, determining and presenting the relationship of related items and groups of items of the financial statements. They provide in a summarized and concise form if fairly good idea about the financial position of a unit. They are important tools for financial analysis.

It's a tool which enables the banker or lender to arrive at the following factors : J

- Liquidity position
- Profitability

- Solvency
- Financial Stability
- Quality of the Management

Safety and Security of the loans and advances to be or already been provided

### **Gross Profit Ratio**

By comparing Gross profit percentage to Net Sales we can arrive at the Gross Profit Ratio which indicates the manufacturing efficiency as well as the pricing policy of the concern.

- **Gross Profit Ratio-(Gross Profit/Net Sales) x 100**

Alternatively, since Gross profit is equal to Sales minus Cost of Goods Sold, it can also be interpreted as below:

- **Gross Profit Ratio = (Sales-Cost of goods sold)/Net Sales] x 100**
- A higher Gross profit Ratio indicates efficiency in production of the unit.

### **Operating Profit Ratio:**

It is expressed as= **(Operating Profit/Net Sales) x 100**

**Higher the ratio indicates operational efficiency**

Net profit Ratio: It is expressed as (Net profit/Net sales) x 100

**It measures overall profitability.**

### **Profit ability Ratios:**

Profitability Ratios attempts to measure the firm's success in generating income. The ratios reflect the combined effects of the firm's assets and debt management.

**Profit Margin:** The profit margin indicates the dollars in income that the firm earns on each dollar of sales. This ration is calculated by dividing Net Income by Sales.

## **Profit Margin= Net Income/Sales**

### **Return on Assets (ROA) and Return on Equity (ROE)**

The Return on Assets Ratio indicated the dollars in income earned by the firm on its assets and the Return on Equity Ratio indicates the dollars of income earned by the firm on its shareholders equity. It is important to remember that these ratios are based on Accounting book values and not on market values. Thus, it is not appropriate to compare these ratios with market rates of return such as the interest rate on Treasury bonds or the return earned on an investment on a stock.

Return on Assets (ROA) = Net Income/ Total sales

Return on Equity (ROE) = Net Income/ Total Owner's Equity

### **Return on Investment (ROI)**

ROI is the acronym for return on investment. Originally the objective of ROI was to relate a return (the income statement benefit) to the amount invested (such as the asset information from the balance sheet).

During the first of the 20<sup>th</sup> century, ROI was helpful in monitoring the decentralized division of large diverse corporations. The ROI calculation may have divided a division with an operating income by the average amount of operating assets being utilized by the division. For instance, a division with an operating income of \$ 1 million that used \$10 million of operating assets had an ROI of 10%.

A drawback of ROI is that the accounting amounts (revenues, expenses, asset book value, etc.) ignore the time value of money. As a result, companies began using discounted cash flows to better assess the profitability of its investments. Calculations such as net present value and internal rate of return become common and RIO was referred to as the accounting rate of return.

In the 21st century we see ROI used in the context of internet marketing and the adoption of wellness programs at large companies. In these examples the income statement benefits (more sales, lower health insurance expense) are related to the amounts being spent. Here, too, the ROI calculations do not consider the time value of money.

### 3.7.3 Break-even Analysis

Break even analysis is also known as cost volume profit analysis. It determines relationships between cost, prices, sales volume and profits. If volume is increased, the cost per unit will come down and profit per unit will increase. Break even chart depicts the estimated costs and profits at various volumes of activity.

Break-even point is the point where total sales revenues equal total costs. At this point there is neither profit nor loss in the volume of sales or there is zero profit. Sales below this point will result in loss and above this point in profit.

Contribution is the excess of sales price over variable cost. It is calculated as Contribution = Sales Price - Variable Cost

Profit Volume ratio is the ratio between profits and sales. It remains constant with changes in fixed cost or changes in levels of production because variable cost as a proportion to sales remains constant at various levels.

1. Profit Volume Ratio or P/V Ratio = Contribution/Sales
2. Where Contribution = Sales—Variable Cost
3. Sales – Variable Cost = Fixed Cost + Profit or Contribution
  4. Sales (Sales – Variable Cost)/Sales = Fixed Cost + Profit
  5. P/V Ratio = Sales – Variable Cost/Sales
  6. Sales x P/V Ratio = Fixed Cost + Profit
  7. Break even sales = Fixed Cost/ P/V Ratio OR BES x P/V Ratio = Fixed Cost
  8. P/V Ratio = Fixed Cost/ Break even sales
  9. (BES + MS) x P/V Ratio = Contribution [Total sales = BES + MS]
  10. (BES x P/V Ratio) + (MS x P/V Ratio) = Fixed Cost + Profit

11.  $\text{Margin of Safety} \times \text{P/V Ratio} = \text{Profit}$
12.  $\text{P/V Ratio} = \text{Contribution/Sales}$
13.  $\text{P/V Ratio} = \text{Change in profit/Change in sales}$
14.  $\text{P/V Ratio} = \text{Change in Contribution/Change in sales}$
15.  $\text{Profitability} = \text{Contribution/Key factor}$
16.  $\text{Margin of Safety} = \text{Total sales} - \text{BES}$
17.  $\text{BES} = \text{Total sales} - \text{MS}$
18.  $\text{Margin of Sales Ratio} = \text{Total Sales} - \text{BES/Total Sales}$

### **Assumption of Break Even Analysis**

Total cost can be divided into fixed and variable cost components.

1. Fixed cost remains fixed or static irrespective of changes in levels of output.
2. Variable cost is that cost which varies in proportion to levels of output.
3. Selling Price per unit remains constant.

Sales line will cut total cost line at a point where total cost is equal to total revenue i.e. the point of no profit no loss or zero profit.  $P_i$  denotes present sales represented by  $X_2$  on X axis and  $Y_2$  on Y axis. Distance between present sales  $X_2$  and  $X_i$  (Break even sales) is Margin of Safety. Larger is margin of safety more it is in the interest of firm as slight decline in sales won't take it into loss zone. Similarly the angle at which sales line cuts total cost line is called Angle of Incidence. Larger angle of incidence denotes more rate of earning profit and it is in the interests of an organisation. Any point ( $P_2$ ) to the left of break even point ( $P$ ) will result in loss and any point ( $P$ ) to the right of break even point will result in profit for the firm. Larger angle of incidence coupled with more of margin of safety is in the interests of the organisation.

**Contribution.** It is the difference between sales and marginal or variable cost of sales.

Contribution = Selling Price — Marginal or Variable Cost

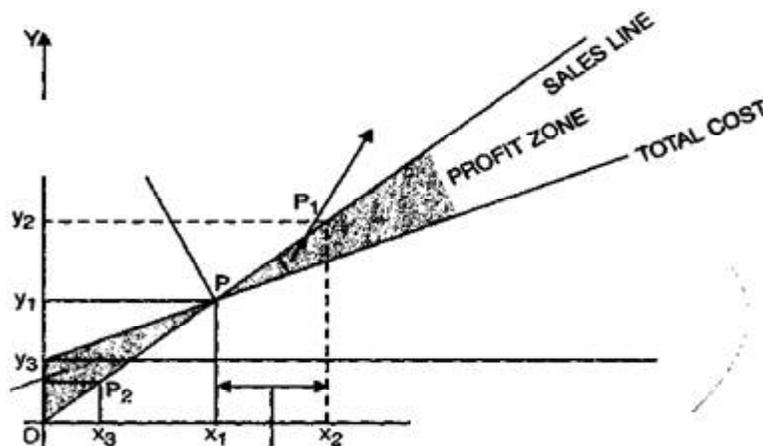
And Contribution = Fixed Cost + Profit.

Contribution is an important technique of studying the profitability of a product, department or division. It facilitates in finding out better product mix. It helps in profit planning and maximisation of profits.

**Profit-Volume Ratio.** It establishes relationship between contribution and sales. P/V Ratio is expressed as a percentage and it denotes the relative profitability of various products, processes or departments. Improvement in P/V Ratio will result in increase in the profits of a business. A high P/V Ratio shows that even a slight increase in the volume of sales without a corresponding increase in fixed expenses would result in high profit. P/V Ratio can be calculated with the help of following formula.

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100$$

Where Contribution = Sales - Variable Cost



P/V Ratio can be increased by maximising contribution which is possible by increasing selling price, reducing the variable cost or by improving the product mix.

**Margin of Safety:** It is the difference between the actual sales and sales at breakeven point. Margin of safety refers to the sales over and above the break even sales. It refers to the amount by which sales revenue can fall before a loss is incurred. Margin of safety indicates strengthen or soundness of a business. Larger margin of safety is an indicator of business strength and smaller margin of safety shows that position of business is risky.

$$\text{Margin of Safety} = \text{Actual Sales} - \text{Sales of break even point}$$

$$\text{Or} = \text{Profit/P/V Ratio}$$

More margin of safety implies that the position of the business is safe even when there is significant fall in sales whereas smaller margin of safety means that the business is heading for trouble (or loss) even when there will be a small fall in sales. Margin of safety can be improved by increasing selling price, reducing variable cost or by increasing production and sales.

**Angle of Incidence** It is the angle formed by the intersection of total cost line and sales line. This angle shows the rate of earning profit. Larger angle of incidence is an indicator that profits are being earned at higher rate. Whereas smaller angle of incidence shows that the rate of earning profit is low. A larger angle of incidence coupled with higher margin of safety indicates the best possible position of a business.

#### **3.7.4 Importance of Break-even Analysis**

Break even analysis acts as an important tool for profit planning and it is important in the following ways—

- (i) Break even chart provides detailed information in a graph in such a way that the management can clearly and easily understand relationship between cost, volume and profit structure of the company.
- (ii) It helps in taking managerial decisions since it shows effect on profits of changes in variable cost and volume of sales.
- (iii) It helps in anticipating costs and profits at various volumes of sales.

- (iv) A break even chart acts as a tool for cost control because it depicts relative importance of fixed and variable costs.
- (v) Profits of different products can be analysed with the help of break even analysis and most profitable product mix can be selected. Similarly profits at different levels of activity can be determined.
- (vi) It helps in formulating pricing policy by projecting the effects of different price structures on profits.
- (vii) Profit potentialities can be best judged from the study of position of break even point and angle of incidence in the break even chart,
- (viii) It helps in knowing effect of increase or reduction in selling price,
- (ix) It helps cost control by measuring operational efficiency of the plant,
- (x) It facilitates decision concerning installed capacity and its utilisation.

### **3.7.5 Limitations of Break-even Analysis**

Break even analysis is based on certain assumptions and these may not hold well in real life. Various limitations of break even analysis are :

- (i) It is not always possible to divide total cost into fixed and variable cost components e.g. telephone bill.
- (ii) Fixed cost remains fixed only upto a certain level of output. Beyond that level it becomes variable, then again it is fixed.
- (iii) Variable cost may not vary in proportion to level of output if economies or diseconomies of scale are there in the business,
- (iv) Selling price per unit does not remain constant as it depends on the forces of demand supply and any change in any of the two will result in change in price.
- (v) The impact of various product mixes on profits cannot be ascertained from a single break even chart.

### **3.7.6 Profitability Analysis**

Profitability analysis is a component of enterprise resource planning (ERP) that allows administrators to forecast the profitability of a proposal or optimize the profitability of an existing project. Profitability analysis can anticipate sales and profit specific in aspects of the market such as customer age groups, geographic regions, or product types. Profitability analysis can help key personnel in an enterprise to:

- Identify the most and least profitable clients,
- Identify the most and least profitable products or services.
- Discover which sources of information offer the most reliable facts.
- Optimize responses to changing customer needs.
- Evolve the product mix to maximize profits in the medium and long term.
- Isolate and remedy the causes of decreasing profit margins.

#### **Social cost benefit analysis**

Social cost benefit analysis is a systematic and cohesive method to survey all the impacts caused by an urban development project. It comprises not just the financial effects (investment costs, direct benefits like tax and fees, et cetera), but all the social effects, like: pollution, safety, indirect (labour) market, legal aspects, et cetera. The main aim of a social cost benefit analysis is to attach a price to as many effects as possible in order to uniformly weigh the above-mentioned heterogeneous effects. As a result, these prices reflect the value a society attaches to the caused effects, enabling the decision maker to form a statement about the net social welfare effects of project.

#### **Compare different project alternatives**

A major advantage of a social cost benefit analysis is that it enables investors (mostly public parties) to systematically and cohesively compare different project alternatives. Hence, these alternatives will not just be compared intrinsically, but will also be set against the “null alternative hypothesis”. This hypothesis describes “the most likely” scenario

development in case a project will not be executed. Put differently, investments on a smaller scale will be included in the null alternative hypothesis in order to make a realistic comparison in a situation without “huge” investments.

### **Calculate direct, Indirect and external effects**

The social cost benefit analysis calculates the direct (primary), indirect (secondary) and external effects: Direct effects are the costs and benefits that can be directly linked to the owners/users of the project properties (e.g., the users and the owner of a building or highway).

Indirect effects are the costs and benefits that are passed on to the producers and consumers outside the market with which the project is involved (e.g., the owner of a bakery nearby the new building, or a business company located near the newly planned cycle highway).

External effects are the costs and benefits that cannot be passed on to any existing markets because they relate to issues like the environment (noise, emission of CO<sub>2</sub>, etc.) safety (traffic, external security) and nature (biodiversity, dehydration, etc.).

### **Monetizing effects**

Effects that cannot be monetized are presented in such a way that they can be compared. This way, policymakers can include these effects in their final judgment if an urban planning project (or a particular variation) is worth investing in. The method of monetizing effects can also influence the outcome of a social cost benefit analysis and predictions will always remain uncertain. Therefore, the results of a social cost benefit analysis are not absolute. Nevertheless, it is a good instrument to investigate the strong and weak points of the different alternatives.

The results of a social cost benefit analysis are:

- An integrated way of comparing the different effects. All relevant costs and benefits of the different project implementations (alternatives) are identified and monetized as far as possible. Effects that cannot be monetized are described and quantified as much as possible.

- Attention for the distribution of costs and benefits. The benefits of a projects do not always get to the groups bearing the costs. A social cost benefit analysis give insight in who bears the costs and who derives the benefits.
- Comparison of the project alternatives. A social cost benefit analysis is a good method to show the differences between project alternatives and provides information to make a well informed decision

**Presentation of the uncertainties and risks.** A social cost benefit analysis has several methods to take economic risks and uncertainties into account. The policy decision should be based on calculated risk

### **3.7.8 Budget and Planning Process**

A budget is a quantitative expression of a plan for a defined period of time. It may include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses strategic plans of business units, organizations, activities or events in measurable terms.

#### **Purposes**

Budget helps to aid the planning of actual operations by forcing managers to consider how the conditions might change and what steps should be taken now by encouraging managers to consider problems before they arise. It also helps co-ordinate the activities of the organization by compelling managers to examine relationships between their own operation and those of other departments.

Other essentials of budget include:

- To control resources
- To communicate plans to various responsibility center mangers.
- To motivate managers to strive to achieve budget goals.
- To evaluate the performance of managers

- To provide visibility into the company's performance
- For accountability

In summary, the purpose of budgeting tools:

- Tools provide a forecast of revenues and expenditures, that is, construct a model of how a business might perform financially if certain strategies, events and plans are carried out.
- Tools enable the actual financial operation of the business to be measured against the forecast.
- Lastly, tools establish the cost constraint for a project, program, or operation.

### **Corporate Budget**

The budget of a company is often compiled annually, but may not be a finished budget, usually requiring considerable effort, is a plan for the short-term future, typically allows hundreds or even thousands of people in various departments (operations, human resources, IT, etc.) to list their expected revenues and expenses in the final budget.

If the actual figures delivered through the budget period come close to the budget, this suggests that the managers understand their business and have been successfully driving it in the intended direction. On the other hand, if the figures diverge wildly from the budget, this sends an 'out of control' signal, and the share price could suffer. Campaign planners incur types of cost in any campaign: the first is the cost of human resource necessary to plan and execute the campaign, the second type of expense that planners incur is the hard cost of the campaign itself.

### **Basic steps in the management planning process**

An effective management planning process includes evaluating long-term corporate objectives.

Management planning is the process of assessing an organization's goals and creating a realistic, detailed plan of action for meeting those goals. Much like writing a business plan

takes into consideration short and long-term corporate strategies. The basic steps in the management planning process involve creating a road map that outlines each task the company must accomplish to meet its overall objectives.

### **Establish Goals**

The first step of the management planning process is to identify specific company goals. This portion of the planning process should include a detailed overview of each goal, including the reason for its selection and the anticipated outcomes of goal-related projects. Where possible, objectives should be described in quantitative or qualitative terms. An example of a goal is to raise profit by 25 percent over a 12-month period.

### **Identify Resources**

Each goal should have financial and human resources projections associated with its completion. For example, a management plan may identify how many sales people it will cost to meet the goal of increasing sales by 25 percent.

### **Establish Goal-Related Tasks**

Each goal should have tasks or projects associated with its achievement. For example, if a goal is to raise profits by 25 percent, a manager will need to outline the tasks required to meet that objective. Examples of tasks might include increasing the sales staff or developing advanced sales training techniques.

### **Prioritize Goals and Tasks**

Prioritizing goals and tasks is about ordering objectives in term of their importance. The tasks deemed most important will theoretically be approached and completed first. The prioritizing process may also reflect steps necessary in completing a task or achieving a goal. For example, if a goal is to increase sales by 25 percent and an associated task is to increase sales staff, the company will need to complete the steps toward achieving those objectives in chronological order.

### **Create Assignments and Timelines**

As the company prioritizes projects, it must establish timelines for completing associated tasks and assign individuals to complete them. This portion of the management planning process should consider the abilities of staff members and the time necessary to realistically complete assignments. For example, the sales manager in this scenario may be given monthly earning quotas to stay on track for the goal of increasing sales by 25 percent.

### **Establish Evaluation Methods**

A management planning process should include a strategy for evaluating the progress toward goal completion throughout an established time period. One way to do this is through requesting a monthly progress report from department heads.

### **Identify Alternative Courses of Action**

Even the best-laid plans can sometimes be thrown off track by unanticipated events. A management plan should include a contingency plan of certain aspects of the master plan prove to be unattainable. Alternative courses of action can be incorporated into each segment of the planning process, or for the plan in it's entirely.

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## **3.8 SUMMARY**

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Efficient and effective project management is required for the success of the enterprise. An enterprise is based on a project. The success/failure or future of an enterprise is largely dependent upon the project. A project is an organised unit dedicated to the attainment of a goal, the successful completion of a development project on time, within budget, in conformance with pre determined programme specifications. Project report is a proposal for creation of productive capacities for manufacturing goods or providing services. Project report is a written statement of what an entrepreneur proposes to take up. Preparation of project report clarifies to the entrepreneurs various processes which are necessary for setting up and managing a new business venture. Project appraisal is important because the number of projects to satisfy the identified needs would exceed the available resources and selection amongst alternate projects is to be made for achieving desired goals. It enables the lending financial institution to make an independent and objective assessment of various aspects of an investment proposition to arrive at the financing decision.

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### 3.9 GLOSSARY

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- **Liquidity:** Liquidity can mean the amount of cash and cash equivalents.
- **Project:** A project is an idea or plan that is intended to be carried out.
- **Breakeven point:** The break-even point (BEP) in economics, business—and specifically cost accounting—is the point at which total cost and total revenue are equal. There is no net loss or gain.
- **Finance:** Finance is a field that deals with the study of investments. It includes the dynamics of assets and liabilities over time under conditions of different degrees of uncertainty and risk.
- **Margin of Safety:** Margin of safety represents the strength of the business. It enables a business to know what the exact amount it has gained or lost is and whether they are over or below the break-even point. In break-even analysis, margin of safety is the extent by which actual or projected sales exceed the break-even sales.

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### 3.10 SELF ASSESSMENT QUESTIONS

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1. Explain Break Even Analysis and discuss its importance

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2. What is Project Appraisal? Discuss its objectives and scope.

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3. Define the concept 'Social Cost Benefit Analysis'. Explain its need in the economic appraisal of a project.

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4. Define project report and discuss its contents.

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### **3.11 LESSON END EXERCISE**

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1. What is Financial Appraisal?. Discuss various methods of financial appraisal.

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2. Difference between Appraisal and Evaluation of a project.

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### **3.12 SUGGESTIVE READINGS**

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1. **Desai, Vasant:** “Small Scale Industries and Entrepreneurship”  
Himalayan Publishing House
2. **Desai, Vasant:** “Management of small scale industries”, Himalayan Publications.
3. **Durries, Richard:** “Entrepreneurship in India”, Special Reference to small scale industry.
4. **Desai, Vasant:** “Organisation and Management of Small Scale Industries”, Himalayan Publications.
5. **Khanka, S.S:** “Entrepreneurial Development.” Sultan Chand and Company Ltd.
6. **Arora, Renu and S.K. Sood:** “Fundamental of Entrepreneurship and small scale business”.

**ENTREPRENEURSHIP AND SMALL SCALE INDUSTRIES**

**STRUCTURE**

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Meaning of Small Scale Business
  - 4.3.1 Definitions SSI
  - 4.3.2 Features of SSI
  - 4.3.3 Objectives of SSI
  - 4.3.4 Importance or Role of SSI
  - 4.3.5 Small Industry Policy Framework
  - 4.3.6 Role of SSI's in Economic Growth
- 4.4 New SSI Policy – 1991
- 4.5 Latest Policy Measures of the Govt. of India for SSI Sector
- 4.6 Challenges before SSI in the Era of Globalization
- 4.7 Small Business as a Seed Bed of Entrepreneurship
- 4.8 Export Potential of Small Units
- 4.9 Meaning of TQM

- 4.9.1 Elements of TQM
- 4.9.2 Essential features of TQM
- 4.9.3 TQM in SSI
- 4.9.4 TQM Process in SSI
- 4.10 ISO
- 4.11 Summary
- 4.12 Glossary
- 4.13 Self Assessment Questions
- 4.14 Lesson End Exercise
- 4.15 Suggested Readings

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## **4.1 INTRODUCTION**

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Small scale sector occupies an important position in the industrial structure of our country. In a country like India, where on one hand there is the acute problem of unemployment and on the other hand scarcity of capital, it is only the small scale sector which is best suited under these conditions. Indian economy is characterized by huge size of population, availability of wide variety of abundant natural resources, ever growing size of market and shortage of capital. Development of agricultural sector is important but more emphasis should be placed on the development on industrial sector, as it is only this sector, which can help in solving numerous problems confronting our economy.

Over the year small scale sector has acquired greater importance in Indian economy. In terms of employment generation this sector is next only to agriculture and accounts for about 35 percent of the total export of the country. In terms of value added it contributes to about 40 percent of the manufacturing sector and 80 percent of industrial production is from this sector.

The role of small scale industries is one of the important features of the planned economic development of India. In India this sector has been assigned with the significant role in the industrialization and economic development of the country, as an effective tool in subserving the national objective of growth with justice. Its crucial role has been increasingly recognized as a solution for the country's problems of scarce capital, wide spread unemployment, regional imbalance of industrial development, inequitable distribution of national income etc.

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## **4.2 OBJECTIVES**

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After going through this lesson, you should be able to:

- Explain the concept of Small Scale Units.
- Understand and discuss the challenges before Small Scale Units
- Explain the concept of International Standard Organisation
- Discuss in detail the latest policy measures of Government of India for SSI sector

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## **4.3 MEANING OF SMALL SCALE BUSINESS.**

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The definition of small scale unit can be categorized in different ways depending on country's pattern and stage of development, policy aims and administrative setup. There can be two bases for defining small business and these are:

**1. Scale of business.** The size of scale of business can be measured in various ways like:

- a) Investment on plant and machinery
- b) Employment generation.
- c) Investment and Employment
- d) Volume and/or value of production
- e) Volume and/or value of scales.

## 2. Qualitative Aspects. These can be:

- a) Ownership of small business is in the hands of an individual or a few individuals.
- b) Management and control of small scale firm is with the owner or owners.
- c) Technology adopted in small scale unit is normally labour intensive.
- d) Small scale business is normally carried on in a limited or local area.

In 1916 Indian Industrial Commission defined cottage industries as “Industries carried on in homes of workers which we have designated as cottage industries. In these operations is small and there is but little organization so that they are, as a rule, capable of supplying only local needs.”

Before Second World War a small concern was defined as a unit having capital invested upto Rs. 30,000 and those concerns having capital in excess of that amount were classified as large scale units.

### 4.3.1 Definitions of SSI

The definition of small scale enterprise has undergone changes over years with the ceiling raised to take into account the rising cost of machinery as well as falling values of rupee. Various definitions of small scale unit are as under:-

**According to Fiscal Commission - 1950:** “A unit operation mainly with hired labour usually 10 to 50 hands.”

**According to Small Scale Industries Board - 1955:** “A unit employing less than 50 persons if using power and less than 100 without the use of power and with a capital investment not exceeding Rs. 5 lakhs.”

**According to Ministry of Commerce and Industry - 1960:** “An industrial unit with a capital investment of not more than Rs. 5 lakhs irrespective of the number of persons employed.”

**According to Ministry of Commerce and Industry - 1966:** “An undertaking having a capital investment in plant and machinery of not more than 7.5 lakhs and Rs. 10 lakhs in case of ancillary units.”

**According to the Government of India - 1975:** “An undertaking having a capital investment of not more than Rs. 10 lakhs and Rs. 15 lakhs in case of ancillary units.”

**According to the Government of India - 1980:** “An undertaking having an investment in plant and machinery of not more than 20 lakhs and Rs. 25 lakhs in case of ancillary units.”

**According to the Government of India - 1985:** “An undertaking having an investment in plant and machinery of not more than 35 lakhs and Rs. 45 lakhs in case of ancillary units.”

**According to the Government of India - 1991:** “An undertaking having an investment in plant and machinery of not more than 60 lakhs and not more than 75 lakhs in case of ancillary units.”

**According to the Government of India - 1997:** “An undertaking having an investment in plant and machinery of not more than Rs. 3 crores.”

**According to the Government of India - 2000:** “An undertaking having an investment in plant and machinery of not more than Rs. 1 crores.”

It is evident from the above definitions that there was an upward revision in the investment limit on plant and machinery in small scale sector from Rs. 5 lakhs to Rs. 3 crores over years but this limit has been reduced from Rs. 3 crores to Rs. 1 crore in the year 1999-2000.

The Small Scale Industrial Sector has emerged as a dynamic and vibrant sector of the economy during the eighties. At the end of the Seventh Plan period, it accounted for nearly 35 percent of the gross value of output in the manufacturing sector and over 40 percent of the total exports from the country. It also provided employment opportunities to around 12 million people.

The primary objective of the Small Scale Industrial Policy during the nineties would be to impart more vitality and growth-impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts would be made to deregulate and debureaucratise the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs.

All statutes, regulations and procedures would be reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small and village enterprises.

#### **4.3.2 Features of SSI**

- 1. Ownership:** Ownership of small scale unit is with one individual in sole proprietorship or it can be with a few individuals in partnership.
- 2. Management and Control:** A small scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalized fashion. The owner is actively involved in all the decisions concerning business.
- 3. Gestation Period:** Gestation period is that period after which teething problems are over and return on investments starts. Gestation period of small scale unit is less as compared to large scale unit.
- 4. Area of Operation:** The area of operation of small scale unit is generally localized catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.
- 5. Technology:** Small Industries are fairly labour intensive with comparatively smaller capital investment than the large units. Therefore these units are more suited for economies where capital is scarce and there is abundant supply of labour.

**6. Resources:** Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

**7. Dispersal of Units:** The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers.

**8. Flexibility:** Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more likely to adopt changes like new method of production, introduction of new products etc.

#### **4.3.3 Objectives of SSI**

The small scale sector can stimulate economic activity and is entrusted with the responsibility of realizing the following objectives:-

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less develop regions of the economy.
3. To reduce regional imbalances.
4. To mobilize and ensure optimum utilization of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem
8. To attain self reliance
9. To adopt latest technology aimed at producing better quality products at lower costs.

#### 4.3.4 Importance or Role of SSI

Small scale industries play a very important role in the economic development of our country. The socio-economic development of India depends upon the development of small scale industries. This sector is contributing a lot towards generation of employment, increasing overall production and exports. Highlighting the importance of small scale business even Industrial Policy Resolution 1956 states.

“They provide immediate large scale employment: they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.” The second Five Year Plan while recognizing the importance of small scale industries states the following five points.

1. Generation of employment opportunities.
2. An equitable distribution of national income
3. Mobilization of capital
4. Mobilization of entrepreneurial skills.
5. Regional dispersal of industries.

It is evident from the above small scale enterprises play an important role in employment generation, resource mobilization and utilization, income generation and in helping to promote change in a gradual and phase manner. India occupies a distinct position amongst developing countries specifically in the area of development of small scale industries. India has a vast reservoir of scientific and technical manpower and occupies third position in the world as far as technical manpower is concerned. It has already emerged as a leading player in the development of software technology.

The importance of small scale industries can be judged from the following points.

1. **Employment Generation:** Small scale industries employ intensive technology and hence generate more employment opportunities. Small scale industries generate opportunities for self employment of technically qualified persons, artisans and professionals.

A major problem confronting our country is of increasing pressure of population on land and need to generate more employment avenues. A given amount of capital is invested in a small industry provide more employment than the same amount of capital invested in a large scale industry. In a country like India confronted with the twin problems of employment and scarcity of capital, it is only the small scale industry which can be solved these problems. Small scale industries can be located anywhere and hence provide employment to workers near their homes, more work for the under employed and additional work for the farmers when they are idle.

**2. Self Employment:** Small scale sector provides numerous opportunities for self employment and hence is more for our country faced with the major problem of unemployment. A self employed entrepreneur is the master of his own show and he thus gets opportunity for doing something creative, new and different. He instead of seeking job for himself, provides employment to others working for himself creates personal interest and successful accomplishment of the task generates job satisfaction and sense of attainment.

**3. Optimum Use of Capital:** Small scale enterprises require relatively lesser amount of capital as compared with large scale enterprises. In the context of Indian economy where capital is scarce, small scale sector can act as a stabilizing force by providing high output capital ratio as well as high employment capital ratio. Moreover, due to shorter gestation period small scale units provide early returns to the entrepreneurs. Small scale units help in capital formation by mobilizing ideal and small scattered saving of the people and put these into productive use by investment in small scale units O.C. Mahalanobis has rightly observed “ . In view of the meagerness of capital resources there is no possibility in the short run for creating much employment through the factory industries (large scale). Now consider the household or cottage industries. They require very little capital. About six or seven hundred rupees would get an artisan family started. With any given investment, employment possibilities would be ten or fifteen times greater in comparison with corresponding factory industries.”

**4. Facilitates Entrepreneurial Development:** Small scale sector helps in entrepreneurial development. The units provide self employment to educated unemployed and reduce their over dependence on the government. It also generates feeling of self reliance amongst the people. This sector generates more employment opportunities with

relatively lesser capital investment. Large scale industries cannot provide opportunities to a large number of entrepreneurs, who are scattered over a wide territory. Small scale industries on the other hand can mobilize such entrepreneurial skills more effectively and put these into productive use.

**5. Use of Local Resource:** Small scale enterprises employ local resources like raw material, saving, entrepreneurial skill more effectively. In the absence of these enterprises these resources are likely to remain unutilised. Thus on one hand small scale sector ensures better use of the local resources and on the other generates employment opportunities and income for the local population.

**6. Balanced Regional Development:** Large scale units are normally concentrated places and this result in generation of employment opportunity, income and development of only these places. Whereas the small scale industries utilises local resources and promote decentralized development of industries. It is only through dispersal of industries in rural and backward areas that the objective of balanced regional development can be achieved. The small scale sector is by providing employment to people in rural and backward areas help in solving the problems of industrial slums, congestion and pollution in industrial towns. the small scale sector is by generating employment and income in backward areas help in raising standard of living of people.

**7. Conservation of Foreign Exchange:** Small scale industries help in saving precious foreign exchange. Firstly small scale units utilize local resources like raw material and available machinery and they are not dependent on costly imports. These units also produce those products, which were earlier being imported. Secondly there has been considerable increase in exports from the small sector over years and presently this sector contributes about 35 percent to India's total exports, thus earning precious foreign exchange for the country.

**8. Equitable Spread of Income and Wealth:** Small scale industries help in the development of socialistic pattern of society by ensuring equitable distribution of income and wealth. This sector inculcates spirit of entrepreneurship among the people by providing them self employment with limited means. Ownership of small scale industries is widespread and offer more employment potential as compared with large scale industries. Large scale industries result in concentration of income and wealth in a few hands and that too at

selected places whereas small scale industries ensure equitable spread of income and wealth amongst all and that too at all places. Small scale industries thus promote the objective of social justice.

**9. Supporting Large Scale Industries:** Small scale industries can facilitate growth and development of large scale industries by providing various parts, components and accessories to large scale industries. Small scale units serve ancillaries to large units by playing a complementary role.

**10. Contribution towards National Economy:** Small scale industries have made rapid strides over years and can produce wide range of products having mass consumption. More than 5000 different products are being manufactured in the small sector. This sector is helping in realization of the objective of export promotion and import substitution. Nearly 50 percent of the output of the manufacturing sector in our country is produced by small scale sector. The small scale sector thus plays a very important role in the economic development of our country.

#### **4.3.5 Small Industry Policy Framework**

The foundation of SSI policy was laid in the Second Five Year Plan. The 1956 industrial policy chose equity as the guiding principle for SSI development. It said: “Small-scale industries provide immediate large-scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised”.

A brief overview of the Small Industry Policy since 1991 is given below:

#### **1991 Policy Reforms**

The Industrial Policy of 1991 was accompanied by a special Policy Statement for Small Scale Industries whose main features were:

- To impart greater vitality and growth to the sector, it would be deregulated and debureaucratized.
- Modifications in all statements, regulations and procedures to ensure they do not go against the interest for small and village enterprises.

- Separate package for promoting tiny units and recognition of all industry-related service and business enterprises except for specified target groups to ensure adequate flow of credit on normative basis.
- To provide access to capital markets by allowing 24 per cent equity participation by other industrial undertakings
- Legislation to ensure prompt payment of bills and legislation for Limited Partnership Act.
- Introduction of a new scheme of Integrated Infrastructural Development to promote industrialisation in rural and backward areas.
- Stress on technology up gradation by setting up a technology Development Cell and strengthening the facilities available with SIDO, and enforcement of quality control.
- Promotion of exports by setting up Export Development Centre.
- Change in definition of women's enterprises and support to women entrepreneurs
- Significant expansion in programmes for entrepreneurship.

**Criterion for small units** - Investment in fixed assets in plant and machinery has been criterion to determine the scale of the industrial sector of unit. It is pertinent that investment in other assets such as administrative building, lands and other fixed assets is not taken into account. The traditional measurement of size by the number of employees is not adopted the small scale units fall broadly under four categories, namely:- Small Scale Industrial Units, ancillary industrial units, Tiny Units, Service Units.

- **Small Scale Industrial Units** - In the case of small scale industrial units 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.60 Lakhs. In order to enable small scale industries to play an important role in the total export effort such as small scale units which undertake to export at least 30 per cent of the annual production by the third year are permitted to step up their investment in plant and machinery to Rs. 7 Lakhs.

- **Ancillary Industries** - In the case of ancillary industries, the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease by the hire purchase shall not exceed Rs.75 Lakhs.

- **Tiny Industries** - The industrial policy statements, 1977, paid special attention to the units in the tiny sector. In these units investment in machinery and equipment was upto Rs.1 lakh, but were subjected to the locational restriction. They shall be situated in towns with a population of less than 50,000 according to 1971 census figure. The policy envisaged the drawing up of schemes for making available margin money assistance. Investment ceiling in tiny industries was increased upto Rs.5 Lakhs in 1990. However, the condition as to their location in towns with a population limit of 50,000 continued to apply. According to Industrial Policy Statement, 1991, the tiny enterprises would be entitled to preference in land allocation, power connection, Access to facilities or skills/technical up gradation. The tiny enterprises would be eligible, in addition, support on a continuous basis including easier access to institutional finance, priority in the Government purchase programme and relaxation from certain provisions of labour laws.

**Organisational Set up** - the small-scale industrial units may be owned and run by single proprietor, a partnership firm or a corporate body.

- **Proprietorship** Proprietary organisations are individually operated and a great majority of small-scale industrial units fall under this category. Single individuals run tiny sector units and small-scale units with a low capital investment. These atomistic set ups are the primitive type where there is no organisation structure. The proprietor himself carries on the business. In these organisational as the business is carried on in personal way, the accounting is casual and business and personal funds are apt to be mingled. The proprietor bears the entire business loss and his personal assets would also be affected, in case, the business assets are not available to pay off the liability.

- **Partnership firm** - The whole concept of partnership is to embark upon a joint venture and for that purpose to bring in as capital money or even property including immovable property. Once that is done whatever is brought in would cease to be the exclusive property of the person who brought it in. It would be the trading asset of partnership in which all the partners would have interest in proportion to their share in the joint venture of the business of partnership.

**Requirements to be complied with by an industrial undertaking for being regarded as small scale industries undertaking:**

- 1) An industrial undertaking, in which the investment is fixed assets in plant and Machinery whether held on ownership terms or on lease or by hire purchase does not exceed Rs. 3.00 Crores.
- 2) In case of an industrial undertaking referred to in the above, the limit of investment in fix assets in plant and machinery shall be Rs. 75 Lakhs, provided the unit undertakes to export at least 30% of the annual production by the end of third year from the date of its commencing production.

**Small Industries Development Bank of India (SIDBI):** Finance being a major problem face by small and tiny industrial undertakings there was a standing demand from them that there should be an apex bank for them. The industrial policy statement 1977 recommended the setting up of a separate wing under the IDBI to deal exclusively with the credit requirements of the small-scale sector.

In line with this decision, the Small Industries Development Bank of India Act, 1989 was enacted under which the SIDBI was set up in 1991, as a statutory organisation for the promotion financing and development of industry in the small scale sector and to co-ordinate the functions of the institutions engaged in the promotion, financing or development of industry in small scale sector. The bank would also give special attention to the export oriented units in that sector. The resources of the SIDBI will mainly comprise contributions from the IDBI in the form of loans and shares and may include market borrowings and loans from the Government of India. The SIDBI offers both direct as well as re-finance schemes. The Bank was initially functioning primarily as a refinancing institution, but has since diversified its activities and introduced several new schemes to meet the various needs of the small-scale sector. Schemes are as

1. Foreign currency loan for purchase of imported machinery.
2. Pre shipment credit in foreign currency for export oriented units, export housed and trading houses.
3. Short-term loan to well runs SSI units for execution of bulk orders.

4. For acquisition of ISO-9000 series of certification.
5. Venture capital fund.
6. Equity assistance to SSI projects.

#### **4.3.6 Role of SSI's in Economic Growth**

The small scale sector in India has particularly emerged as a vibrant and dynamic segment of the economy. It is a matter of pride that India has a distinct position its own among the developing countries, particularly in the area of small scale industries. India has a vast reservoir of scientific and technical manpower, occupying third position in the world as far as technical manpower is concerned.

For the first time, the SSI sector received a specific focus towards growth and development in the industrial policy measures announced on August 6, 1991. These policy measures for the SSI sector have given considerable focus and attention towards modernization, technology upgradation, quality and human resource development. The small scale industries have recorded a significant rate of growth since independence inspite of stiff competition from the large sector and not very encouraging support from the government. This would be clear from the following aspects :

##### **(1) Growth**

The number of small scale industries has grown immensely since independence. This is evident from the following:

<b>Year</b>	<b>No. of units (in lakhs)</b>
1950	0.16
1980-81	4.48
1990-91	19.40
1991-92	20.00
1992-23	22.35

1993-94	23.84
1994-95	25.71
1995-96	27.24
1996-97	28.57
1997-98	30.14
1998-99	31.21
1999-2000	32.25
2000-2002	34.42
2002-2003	35.72

**Source: DC (SSI)**

During the last decade alone, the small-scale sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated products like T.V. Sets, micro-wave components, electro-medical equipment etc. Other than this SSIs have been engaged in the production of goods like wood products, hosiery and garments, cotton textiles, beverages and tobacco products, food products, jute textiles, leather and leather products, transport equipments etc. These industries produce over 7500 commodities.

**Comparative Growth of SSIB Industrial Sector**

Year	SSI sector	Industrial Sector
1991-92	3.1	0.6
1992-93	5.6	2.3
1993-94	7.1	6.0

1994-95	10.1	9.4
1995-96	11.4	12.1
1996-97	11.3	7.1
1997-98	8.43	5.8
1998-99	7.7	4.0
1999-00	8.23*	7.9+

\* 1st two quarters

+ April - February

**Source:** DC (SSI)

## (2) Employment Generation

A basic problem that is confronting the country is the increasing pressure of population on the land and the need to create massive employment opportunities. In the next 20 years as many as 50 million jobs may have to be created outside the agricultural sector and this magnitude of job creation will be impossible in the framework of conventional industrial growth. Those who plead for emphasis on the heavy industry need to realize that the creation of even a single job in this sector is becoming increasingly expensive. It costs as much as a Rs. 1,00,000 for one job and to create 50 million jobs would take an astronomical sum of money which the country can hardly afford.

**Karve Committee stated:** "The principle of self employment is at least as important to a successful democracy as that of self government". The argument is based on the assumption that small enterprises are labour intensive and thus create more employment per unit of capital employed.

### Employment in Small Scale Sector

Year	Employment (Lakhs)	Year	Employment (Lakhs)
1973-74	39.7	1993-94	139.4
1980-81	71.0	1994-95	146.6
1983-84	84.2	1995-96	152.6
1987-88	107.0	1996-97	160.0
1991-92	130.0	1997-98	167.2
1992-93	134.0	1998-99	171.6
		1999-2000	178.5
		2000-01	192.23
		2002-03	199.5 (E)

Employment generation by this sector has recorded a 59 percent increase from 84.2 lakhs in 1983-84 to 134.0 lakhs in 1992-93 and it generated employment of 178.5 lakhs in 1999-00 which is likely to touch 190.00 lakhs during the year 2000-01. It simply shows commendable growth in rate of employment. SSI sector has shown a better performance in employment growth and growth of industrial production as compared to large scale sector.

According to a **World Bank study**, small to medium enterprises sponsor projects with an appreciably higher proportion of unskilled workers, i.e 65 percent, than medium to large enterprises with about 50 percent. Creation of unskilled jobs certainly has a direct impact on the alleviation of poverty which is greater for small and medium enterprises than for large ones.

The concept of small enterprise include not only industrial but service sector also. As the sophistication of the industry increases, the equipment used becomes increasingly labour saving and hence the employment potential of even small industry may well diminish, as in

now the case of any developed country. It is the service sector that accounts for a vast majority of the small units and gives scope for individual initiative and consumer satisfaction. A basic degree of self confidence, an alert mind and an ability to please the customer are the qualities that are always essential to succeed in a small industry and if these qualities are applied to the service sector, they will undoubtedly provide considerable employment to young men and women. Take tourism for instance. In the West countries, rendering of services is becoming more and more profitable and the same trend is appearing in India also. Instead of concentrating all attention on production, why should one not look at much wider opportunities afforded in providing much needed services to the community which are increasingly regarded as the symbols of the good life. It is this service area which will hold the greatest potential for growth in the next 20 years and also provide a considerable degree of employment.

In many countries, the business of retailing has become a fine art. Packaging and display of merchandise to attract customers has been raised to the level of artistry in a country like Japan.

It is also true that the employment opportunities afforded in marketing will indeed be far greater than in manufacturing. In other words, the making of a product even in a small industry, will be separate from the job of selling it, the later being taken over by professional marketing man who will handle a group of products, explore new outlets and sell the product in the rural and semi-urban areas.

### **(3) Exports**

Substantial increase in exports were observed in case of ready made garments, canned and processed fish, leather sandals and chappals, food products, hosiery and marine products. Various products like sports goods, processed tobacco and plastics originate from the small scale sector. This sector accounts for 92 percent of exports of marine products, 95 percent of ready made garments, 84 percent of woolen goods, 65 percent of leather goods, 40 percent of engineering goods, 45 percent of cashew kernels and cashew nuts and 60 percent of the chemical items. The following table reflects the share of small scale industry in India's exports.

### Share of Small Industry in Export

<b>Year</b>	<b>Exports (Rs. Crores)</b>	<b>Year</b>	<b>Export (Rs. Crores)</b>
1970-71	70	1994-95	29068
1973-75	393	1995-96	36740
1980-81	1643	1996-97	39249
1982-83	2045.03	1997-98	43946
1986-87	3631.24	1998-99	48979
1987-88	4373.00	1999-2000	53975
1988-89	5489.00	2000-01 (p)	54800
1990-1991	9100.00		
1991-1992	13627.00		
1993-1994	24000.00		

Small and medium scale enterprises are poised of the total exports of Rs. 32,500 crores during 1991. These zones enjoy a number of concessions, such as tax holiday for five years, duty free import of capital goods and equipments, special tax concessions allowed to 25 percent of the production to domestic trade area at a lower duty. The new small enterprise policy titled "Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises" was tabled in the parliament on August 6, 1991. The new policy encourages the setting up an Export Development Centre and a Technology Development Centre in the SIDO.

Other facilities given by the Government include cash compensatory support, liberalized export credit for the preshipment advances and liberalized permission by the RBI for entering into negotiations for export of capital goods, exemption from payment of custom duty to 60 specified items of raw materials and components imported for export promotion etc. In addition to these facilities, institutions like Export Credit and Guarantee Corporation

(ECGC) and State trading Corporation (STC) facilitate the development and export of selected products manufactured by small scale units.

The government has set up a working group on SSIs in order to promote exports in this sector. The government representatives suggested that an arrangement should be made to have a data bank on SSIs. They suggested that a system can be devised to make it binding on the individual exporters of SSI units to pass on the details of facts and figures to their respective export promotion councils. To look into problems, four sub committees have been formed under the categories of infrastructure, marketing policy, credit and banking facilities, and technology upgradation. (Govt. Policies for Export Promotion have been discussed in the chapter of Export promotion.)

#### **(4) Indigenization**

The small scale industries usually have a low propensity to import raw materials and capital goods. SSIs buy more domestic inputs produced by indigenous labour. The size of or a bigger thrust is in exports.

#### **Strategy for Export Promotion**

Export promotion of the SSI products has been given high priority in the export strategy of the country. Budget of 1993 proposed some changes. One of them was 100 percent reduction for three years in respect of income derived from export of software is extended for one more year. Another promotional measure initiated was setting up of Export Processing Zones (EPZs) and the 100 percent Export Oriented Units (EOUs). There are seven EPZs in the country. The gross export contribution of the five zones amounted to Rs. 977 crores in 1990-91. The EOUs have earned Rs. 591 crores. The combined contribution of the EPZs and EOUs is Rs 1500 Cr which is 5 % of was the total exports of Rs. 32,500 crores during 1991. These zones enjoy a number of concessions, such as tax holiday for five years, duty free import of capital goods and equipments, special tax concessions allowed to 25 percent of the production to domestic trade area at a lower duty. The new small enterprise policy titled “**Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises**” was tabled in the parliament on August 6, 1991. The new policy encourages the setting up an Export Development Centre and a Technology Development Centre in the SIDO.

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## **5. Regional Dispersal of Industries**

There has been massive concentration of industries in the states of Maharashtra, West Bengal, Gujarat, Tamil Nadu and Punjab. Even within these industrialised states, industries have tended to get concentrated in a few large cities like Bombay, Calcutta, Madras and Ludhiana. People migrate from rural and semi-urban areas to these highly developed centres of industrial development. The urban environment gets polluted due to obvious reasons. As against this, the SSIs, satisfy local demand and can be dispersed over all the state very easily. They are bringing about a qualitative change in the economy of the state. Punjab has more small scale industrial units (about 1.25 lakhs) than even industrially developed state of Maharashtra.

For example, Gujarat accounts for 59 percent of the total units in the small sector, 62 percent total employment, 66 percent of total investment in fixed assets and 69 percent of gross output. Similarly, Ludhiana alone accounts for 92 percent of total woollen hosiery units 82 percent of cotton hosiery is in Coimbatore, Ludhiana, Calcutta, Delhi, 52 percent of bolts and nuts in Ludhiana, Jalandhar, Howrah, Bombay, 63 percent of bicycle parts and accessories in Ludhiana and 21 percent of iron and steel castings and forgings in Jalandhar.

Some items reserved for SSI sector. (i) Ice Cream, (ii) Biscuits (iii) Synthetic syrups (iv) a variety of automobile parts (v) Corrugated paper and boards, (vi) Vinegar (vii) Poultry feed (viii) Rice-milling (ix) Dalmiling (x) Pickles and chutneys (xi) bread (xii) Confectionery excluding chocolates, toffees and chewing gum (xiii) Rapeseed oil except solvent extract (xiv) Mustard oil except solvent extract (xv) Groundnut oil except extract (xvi) Sweetened cashew products etc.

## **6. Provides Opportunities for development of Technology**

SSIs provide ample opportunities for the development of technology, in return, creates an environment conducive to the development of SSIs. Technological inputs in the form of external services/facilities are increasingly becoming more and more important to industries. Small industry has tremendous capacity to generate or absorb innovations. As discussed earlier, many of the important inventions of the century have come from independent inventory and small business houses. There is every likelihood that the cost of special incentives given to SSIs is low; the benefits generated are likely to be high.

The latest example of such technology based units is the development of a personal computer (PC) which was not developed multinationals but by a young entrepreneur, Steve Jobs, who overnight created a billion dollar industry.

Japan has demonstrated how effective technological development can sometimes the common place, it is not necessary that breakthrough are to be achieved for reaping the benefits of improved technology.

One of the most frequent criticisms of small industry is that his does not pay adequate attention to quality. But this criticism is not always justified. Small industry suffers from lack of adequate testing equipment, which is increasingly expensive, and has only limited access to testing facilities. Small units cannot afford expensive R & D divisions as in large industry, which constantly looks for new processes and innovations for adoption. As a result, small industry entrepreneurs are often forced to operate at low technology levels and they lack quality control. Financial institutions such IDBI, ICICI, IFCI, SIDBI and commercial banks have also been supporting and promoting technology.

This power has to be harnessed to a great extent in making India economically strong and to make Indian entrepreneurs, particularly small scale entrepreneurs, go global.

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#### **4.4 NEW SSI POLICY – 1991**

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The economic reform measure initiated by the government in the form of Small Scale Industrial Policy, 1991 changed the business environment in the country. The thrust of the new policy has been to provide freer access to capital, technology and market so as to include greater industrial efficiency and international competitiveness. The policy titled “Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises,” for the first time on August 6th, 1991 is a landmark in the direction to impart more vitality and growth impetus to small sector in the country. The policy proposed to deregulate and debureaucratise the small sector to remove all fetters on its growth potential.

The various measures designed to achieve the above objectives are as follows:

##### **1. Reservation Policy**

Reservation policy is meant for helping small sector to attain sufficient vitality and competitive strength for its healthy survival, and its integration with the large scale sector. There were 128 items reserved for SSI sector during Industrial Policy Resolution 1956, the number went upto 836 items in 1990, 851 items in 1997.

The Expert Committee on Small Enterprises advocates small scale sector. For meeting transitional arrangements, it suggested Rs. 500 crores per year to be provided by the government for a period of five years to industries affected by reservation. This can be used as a leverage to obtain greater resources from SIDBI, banks and other financial institutions to provide concessional funding for expansion, technology up gradation, modernization, training and fiscal concessions. This recommendation of the Expert Committee was considered by the government and it was decided to go in only for phased dereservation to safeguard the interest of the small scale sector. In April 1997, the govt. dereserved 15 items out of 836 items kept reserved for the SSI sector. It is expected that improved technology and fresh investment would flow to the dereserved industries. The stipulation of minimum export obligation of 75 percent was reduced to 50 percent for all

industrial undertaking engaged in manufacture of items reserved for SSI sector, effective from December, 1997.

## **2. Export - Oriented Units**

(a) The concept of Export -Oriented Units was introduced among SSIs in 1991. EOUs have an obligation to export at least 30% of its annual production by the end of third year of commencement of production and having an investment ceiling of Rs. 10 million.

(b) Free import of capital goods/raw materials and other essential inputs, and in certain cases duty free or with concessional rate of custom duty, so as to ensure higher production for exports.

(c) With a view to make Indian products competitive in the world market, a large number of incentives have been provided to the exporters from time to time. Such incentives include refund of duties paid on raw material used in export production by a system of duty draw-back, pre and post shipment credit to the exporters at concessional rates of interest etc.

(d) Export policy of the govt. has remained liberal as there are hardly any restrictions on export of items from small scale sectors.

(e) Export procedures have been simplified from time to time promote exports.

(f) The govt. has been providing assistance to small industries for exhibiting their products, in international exhibitions. The govt. also organizes training programmes on latest packing standards, techniques etc. besides providing technical and managerial consultancy services. The SSIs have 812 products exclusively reserved for production and contributes more than 50 percent of total exports of the manufacturing sector and about 35 percent of the total exports of the country. It produces a wide range of 7500 products covering every range of products.

## **3. Revision of Investment Limit of SSI**

Government has raised the investment ceiling of SSIs. SSI is defined as, “An industrial undertaking in which the investment in fixed assets in plant and machinery, whether held

on ownership terms or lease or on hire-purchase doesn't exceed Rs. 10 million." There has been increase in the investment limits in plant and machinery of Small Scale Units, ancillary units and export oriented units to Rs. 60 lakhs, Rs. 75 lakhs and Rs. 75 lakhs respectively. 'TINY Units' located in villages and towns with a population of less than 50,000 would have the investment limit raised from Rs. 2 lakhs irrespective of the location of the unit.

Women Entrepreneur Enterprise is termed as SSI unit/industry related service or business enterprise, managed by one or more women entrepreneurs in propriety concerns or in which she/they can individually or jointly have a share capital of not less than 51% as partners/shareholders/directors.

Small Scale Service and Business (industry related) enterprise has an investment limit upto to Rs. 1 million in fixed assets.

Raising of investment limit is expected to help modernization and technological upgradation, particularly of export-oriented units, and would also encourage economies of scale.

### **1. Modernisation Programme**

Under its programme of modernization of small industry units, the Govt. of India aims to update technology, by identifying the inputs needed for small industry. The main objectives of this programme are:

- (a) To improve production technology
- (b) To improve product design and development;
- (c) To promote utilization of appropriate technology for achieving operational results;
- (d) To promote higher quality standards.

For promoting quality standards, awards like Rajiv Gandhi National Quality Award, CII-EXIM Business Excellence, Golden Peacock national Quality Award and many State level awards have been instituted. Govt. of India also gives subsidies to small enterprise in getting ISO certificates.

## **5. Administrative Reforms**

Under new policy measures, the govt. has introduced a number of administrative reforms.

- (a) Licensing restriction in production in small scale sector has been removed;
- (b) Locational restrictions have been reduced to the minimum;
- (c) Industry related services have been brought under small industry development programmes and given greater encouragement;
- (d) Registration procedure has been simplified;
- (e) Various steps have been taken to transform the enforcement of labour laws for small industry from an area of regulation to an era of self discipline and voluntary compliance.
- (f) Environmental clearance procedure for SSIs have been rationalized and simplified.
- (g) In the administration of excise duty major procedural simplifications have been introduced.

## **6. Marketing Assistance**

Initially, the SSIs production was confined to domestic market but gradually, production has been enlarged to cater to both national and international markets. There are about 7500 products manufactured by 31 lakh SSI units but still SSIs suffer from marketing difficulties as their products are often unstandardised and variable quality. No scientific market research is carried out of SSIs due to poor data base. Installed capacity, level of production, market information and other information required for market research are not available for SSI products. Therefore, government intervention is needed to eliminate these imperfections by improving the marketing network and bringing procedures and dealers into close contact with one another. The governmentt has taken some steps:

- (a) In order to provide guarantee for sale, the govt. gives preference upto 15 percent on some of the products sold by the small firms.

- (b) The national Small-Scale Industries Corporation assists small firms in obtaining a greater share of government and defense purchases but does not take marketing responsibility.
- (c) NSIC established in 1955 has helped in the establishment of 21,384 small-scale units besides securing purchase orders for small industries from the Director - General of Supplies and Disposals.
- (d) The NSIC would concentrate on marketing of mass consumption items under common brand name.
- (e) An expert development centre would be set up in SIDO to serve the small-scale industries through its network of field offices to promote exports.

## **7. Technical Assistance**

The growth of SSIs is obstructed by the present low level of technology and shortage of trained, experienced and competent supervisory personnel. Realizing the need for less expensive training and consultancy service for achieving wider geographical disposal of small enterprises all over the country, the govt. has taken these steps:

- (a) Central Small-Scale Industries Organisation (CSIO) through its Service Industries and Extension Centres, provides a staff of technically qualified people whose job is to advise the small entrepreneurs to technical problem faced by them.
- (b) IBDI (Industrial Development Bank of India) took the initiative in the early seventies to promote Technical Consultancy Organisations (TCOs) and institutes for entrepreneurship development (IEDs). TCOs provide a total package of consultancy services to entrepreneurs covering all stages in project cycle.
- (c) Entrepreneurship Development Institute of India was set up in Ahmedabad in 1983 and Institute of Entrepreneurship Development was established in backward states like Bihar, Orissa, Uttar Pradesh, Assam. Training cum production centres have been set up in the North-Eastern states to provide extension services in the area of training and consultancy.
- (d) SIDBI has also contributed in training first generation entrepreneurs.

## **8. Industrial Estates**

An industrial Estate means to provide on rental basis, good communication and other basic common facilities to group of small entrepreneurs who would otherwise find it difficult to secure these facilities at a reasonable price. The Industrial Estate Programme began with the first estate in Okhla (near Delhi) in 1957. Since then it has made rapid progress by providing a wide variety of facilities to entrepreneurs, including common

- (b) Locational restrictions have been reduced to the minimum;
- (c) Industry related services have been brought under small industry development programmes and given greater encouragement;
- (d) Registration procedure has been simplified;
- (e) Various steps have been taken to transform the enforcement of labour laws for small industry from an area of regulation to an era of self discipline and voluntary compliance.
- (f) Environmental clearance procedure for SSIs have been rationalized and simplified.
- (g) In the administration of excise duty major procedural simplifications have been introduced.

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### **4.5 LATEST POLICY MEASURES OF THE GOVT. OF INDIA FOR SSI SECTOR**

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#### **Policy Initiative on SSIs in 2001-02**

1. The investment limit for units in hosiery and hand tool subsectors was enhanced.
2. The corpus fund set up under the Credit Guarantee Fund Scheme has been raised to Rs. 200 crore from Rs. 125 crore.
3. Credit Guarantee cover against an aggregate credit of Rs. 22.88 crores was provided till the end of December, 2001
4. 14 items were dereserved on June 2001 related to leather goods, shoes and toys.

5. A new scheme named Market Development Assistance Scheme was launched exclusively for the SSI sector.
6. Under the Cluster Development Programme, 4 UNIDO assisted projects have been commissioned during the year.

#### **Policy initiatives on small-scale industries in 2002-03**

1. Fifty one items were dereserved in May 2002
2. In the union Budget 2002-03, income tax exemption was granted to the income of the Credit Guarantee Fund Trust for Small Industries for 5 years.
3. In the Union Budget 2002-03, the general SSI Excise Exemption Scheme has been extended to air guns, air rifles and air pistols (not covered under the Arms act, 1959); articles of apparel, knitted or crocheted; marble and Bengal lights.
4. National Awards for scheduled commercial banks were constituted by the Ministry of Small Scale Industries for best performance in terms of lending to SSIs. The first ever Awards were given away in the 3rd SSI Convention on August 28, 2002.
5. A Biotechnology Cell has been created in the Ministry of SSI under the Chairmanship of Development Commissioner (Small Scale Industries) to facilitate the development and promotion of biotechnology based industries in the small scale sector.
6. For technology upgradation and quality improvement in SSI sector, the scope of the ongoing ISO 9000 reimbursement scheme has been enlarged to include reimbursement of expenses for ISO 14001. Environment standards are implemented with effect from October 28, 2002.

#### **Policy Initiatives on SSI in 2003-04**

1. 75 more items are deserved for SSIs. The finance Minister Jaswant Singh has approved to with draw reservation on 75 more items from SSIs from the list of 749 in continuation of the last year's deservation list of 50 items. The items

dereserved include chemicals, reagents, leather and leather products, plastic products, chemicals and chemical products and paper products.

2. In order to let the full benefits of the declining rates of interest to the SSI sector, the finance minister has proposed measures of obtaining bank finance at moderate rates of interest. It was recently announced by the State Bank of India (SBI) and Indian Bank Association (IBA) that interest band of 2 percent above and below PLR for secured advances will also help the SSIs in obtaining bank credit at moderate rates.
3. The Budget 2003-04 will allocate Rs. 172.80 crores for the Credit Guarantee Fund to provide collateral free loan to SSI Sector.
4. Exemption for SSI goods has been raised to Rs. 3 cr.
5. The total plan outlay in actual terms in 2003-04 has fallen to Rs. 400 crores as against the budgetary allocation of Rs. 435 crores in 2002-03. It amounts to decrease in the plan outlay for SSIs by 8%.

The latest budget 2003-04 also announced many healthy changes by dereservation of 75 more items of SSIs, reduction in excise, allocation of more funds for boost up of SSIs.

#### **Policy Initiative in SSI during 2004-05**

1. Dereservation of 85 items which were reserved for exclusive manufacture in the SSI sector in October 2004. The number of reserved items is now 605.1.
2. For technology upgradation and enhancing competitiveness the ceiling on investment (in plant and machinery has been raised in October 2004 from 1 crore to Rs. 5 crore in respect of 7 items of sports goods, reserved for manufacture in the small scale sectors.
3. The small and medium enterprises (SME) Fund of Rs. 10,000 crore was established by SIDBI since April 2004. Lending from this fund will be available only for SSI units at the rate of 2% below the PLR (Prime lending rate) of SIDBI.

4. Composite Loan limit for the SSI sector has been increased by RBI from Rs. 50 lakh to Rs. 1 crore.
5. For integrating and medium enterprise a suitable legislation is being finalized.
6. A new promotional package for small enterprises is being formulated. This would include measures to provide adequate credit, incentives for technology upgradation, infrastructural and marketing facilities etc.

**Policy Initiative in SSI sector during 2005-06**

1. Dereservation of 108 items which were reserved for exclusive manufacture in SSI sector on Feb. 28, 2005. The number of reserved items is now 497.
2. The provision for promotion of SSI Scheme under capital subsidy scheme has been enhanced to Rs. 173 crore in 2005-06 as compared to Rs. 135 crore in 2004-05.
3. Small and Medium units engaged in knowledge based industries such as pharma, biotech will be provided equity support through the SME growth fund with a corpus of Rs. 500 crore of SIDBI.
4. Manufacturing competitiveness Programme will be launched to strengthen the operation of SSI sector.
5. The allocation in technology upgradation fund (TUF) has enhanced to Rs. 435 crore.
6. In addition to the benefits available under the TUF scheme, a 10% capital subsidy scheme is introduced for textile processing sector.
7. Two schemes namely life Insurance Scheme for handloom weaves and a health insurance package for the weaves has been introduced.
8. The ceiling for SSI exemption based on turn-over has been increased from Rs. 3 crore to Rs. 4 crore per year.

## **LATEST POLICY FRAMEWORK AND FOCUS AREAS**

### **Policy**

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific Funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The Ministry of MSME has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability Partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) should pave the way for greater corporatization of the Small and Medium Enterprises thereby enhancing their access to equity and other funds from the market of these products in keeping with the global standards. The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate consensus on further trimming this list.

### **Credit/Finance**

Credit is one of the critical inputs for the promotion and development of the micro and small enterprises. Some of the features of existing credit policy for the MSEs are:

Priority Sector Lending. Credit to the MSEs is part of the Priority Sector Lending Policy of the banks. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the Priority Sector. For the foreign banks, however, 32% of the NBC is earmarked for the Priority Sector, of which 10% is earmarked for the MSE sector. Any shortfall in such lending by the foreign banks has to be deposited in the Small Enterprise Development Fund (SEDF) to be set up by the Small Industries Development Bank of India (SIDBI).

### **Institutional Arrangement**

The SIDBI is the principal financial institution for promotion, financing and development of the MSE sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of (i) refinance assistance (ii) direct lending and (iii) development and support services. Commercial banks are the important channels of credit dispensation to the sector and play a the form of composite loans). At the State level, State Financial Corporation (SFCs) and twin-Function State Industrial Development Corporations (SIDCs) are the main sources of long-term finance for the MSE sector.

Recognising the importance of easy and adequate availability of credit in sustainable growth of the MSE sector, the Government has announced a "Policy Package for Stepping up Credit to Small and Medium Enterprises (SMEs)", with the objective of doubling the flow to credit to this sector within a period of five years. To ensure better flow of credit to MSEs, the Ministry of MSEM is also implementing the following major schemes:

**Emerging Sources of Finance:** Faced with increased competition on account of globalisation, MSMEs are beginning to move from bank credit to a variety of other specialised financial services and options. In recent years, the country has witnessed increased flow of capital in the form of primary/secondary securities market, venture capital and private equity, external commercial borrowings, factoring services, etc. More advanced MSMEs have started realising the importance of these alternative sources of funding to raise resources and the need for adopting better governance norms to take advantage of these funding sources. Efforts are on to put in place Limited Liability Partnership Act so as to provide a thrust to the MSMEs in their move towards corporatisation. At the end of March 2007, the loan outstanding against the MSE sector from scheduled commercial

banks is estimated at over 1,27,000 crore (\$32 billion) and for medium enterprises at over Rs. 90,000 crore (\$22.5 billion). The incremental credit from scheduled commercial bank to the MSME sector during 2006-07 is estimated at around Rs. 45,000 crore (over \$ 11 billion). In addition, the MSME sector is estimated to have received funds from emerging sources like venture capital and private equity, external commercial borrowings, factoring services, etc., to the tune of Rs. 12,000 crore (\$3 billion).

**Credit Guarantee Scheme:** To ensure better flow of credit to micro and small enterprises by minimising the risk perception of banks/financial institutions in lending without collateral security, the Government launched Credit Guarantee Fund Scheme for Micro and Small Enterprises in August 2000. The scheme covers collateral free credit facility extended by eligible lending institutions to new and existing micro and small enterprises for loans up to Rs. 50 lakh (\$125,000) per borrowing unit. The guarantee cover is up to 75 per cent of the credit sanctioned [80% in respect of loans up to Rs. 5 lakh (\$12,500), loans provided to MSEs owned/operated by women and all loans in the North-East Region].

**Performance & Credit Rating Scheme:** The Performance & Credit Rating Scheme for manufacturing MSEs was launched in April 2005 with the objective of assisting the MSEs in obtaining performance-cum-credit rating which would help them in improving performance and also accessing bank credit on better terms if the rating is high. Under the scheme (implemented by the National Small Industries Corporation in conjunction with reputed rating agencies), 75% of the fee charged by the rating agency is reimbursed by the Government subject to a maximum of Rs. 40,000 (\$1,000).

### **Technology**

**Competitive Technology:** In today's fast paced global business scenario, technology has become more vital than ever before. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the-arts.

**Tool Rooms and Training Centers.** These tool rooms provide invaluable service to the Indian industry by way of precision tooling and providing well trained craftsmen in the area of tool and die making. These tool room are highly proficient in mould and die making technology and promote precision and quality in the development and manufacture of sophisticated moulds, dies and tools. The tool rooms are not only equipped with the best

technology but are also abreast with the latest advancements like CAD/CAM, CNC machining for tooling, Vacuum Heat Treatment, Rapid Prototyping etc. The Tool Room & Training Centres also offer various training programmes to meet the wide spectrum of technical manpower required in the manufacturing sector. The training programmes are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. The Tool Rooms have also developed special training programmes to meet the requirements at international level, which are attended by participants from all over the globe. The Ministry of MSME implements the following schemes and programmes for the up gradation of technology of the MSMEs:

**ISO 9000/14001 Certification Fee Reimbursement Scheme:** To enhance the competitive strength of the MSEs, the Government introduced a scheme to incentivise technological up gradation, quality improvement and better environment management by the MSEs. The scheme reimburses 75% of the fees, subject to a maximum of Rs. 75,000 (\$2000), for acquiring Quality Management System (QMS) ISO 9000 certification and/ or Environment Management System (EMS) ISO 14001 certification by the MSEs.

**Micro and Small Enterprises Cluster Development Programme:** The Micro and Small Enterprises Cluster Development Programme (MSECDP) are implemented for holistic development of clusters of MSEs. The programme envisages measures for capacity building, skill development, technology up gradation of the enterprises, improved credit delivery, marketing support, setting up of common facility centres, etc., based on diagnostic studies carried out in consultation with cluster units and their collectives and management of cluster-wide facilities by the cluster collectives. This is, in fact, the flagship scheme of the Ministry of MSME and it attempts to cover (in phases) all or most of the “Clusters of Micro & Small Enterprises” scattered throughout the country. It aims at a focused programme of upgrading skills and technologies that exist in these clusters through various stages, like proper diagnostic studies; interaction with the existing enterprises (on the recommendations of the study); exposing the entrepreneurs/workers to better products, processes & practices; upgrading the existing skills available that finally lead to the creation of ‘common facility centers’ (CFCs) that these enterprises could utilize. These CFCs can be in the form of processing facilities, finishing or packaging centres, tool rooms, testing/certifying laboratories, training centres and so on. Till October 2007, the Ministry of MSME has undertaken the development of over 400 clusters of village, micro and small enterprises;

while 8 other Ministries and agencies of the federal government have also undertaken similar interactions in about 800 more clusters. India has now acquired considerable expertise in “Cluster Development Programme” and UNIDO as well as many developing countries are eager to learn about the Indian success story.

**Credit-Linked Capital Subsidy Scheme (CLCSS):** This programme specifically aims at assisting individual micro & small enterprises to replace their existing machinery with more modern and efficient ones, with State assistance of 15% of the bank credit required to finance the new purchases. The federal government in the Ministry of MSME has assisted hundreds of micro enterprises in India and over \$ 50 million has already been committed to this scheme, with more in the pipeline.

**Infrastructure Development:** For setting up of industrial estates and to develop infrastructure facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services, etc., for MSMEs, the integrated Infrastructural Development (IID) Scheme was launched in 1994. The scheme covers rural as well as urban areas with a provision of 50 per cent reservation for rural areas and 50 per cent industrial plots are to be reserved for the micro enterprises. The Scheme also provides for up gradation/ strengthening of the infrastructural facilities in the existing industrial estates. The estimated cost (excluding cost of land) to set up an IID Centre is ^ 5 crore (\$1.25 million). Central Government provides 40 per cent in case of general States and up to 80% for North East Region (including Sikkim), J&K, H.P. and Uttarakhand, as grant and remaining amount could be loan from SIDBI/Banks/Financial Institutions or the State Funds. The IID Scheme has been subsumed under the Micro and Small Enterprise Cluster Development Programme (MSECDP). All the features of the IID Scheme have been retained and will be covered as “New Clusters” under MSECDP.

**National Manufacturing Competitiveness Programme:** To help the MSMEs improve their competitiveness, the Government has also launched the National Manufacturing Competitiveness Programme (NMCP). The schemes under this Programme are aimed at addressing the technology, marketing and skill up gradation needs of the sector, mainly in the Public-Private Partnership mode. One of the components under this programme is the application of Lean Manufacturing Technologies for increasing competitiveness of firms

by systematically identifying and eliminating waste throughout the entire business cycle. This would tackle the factors inhibiting growth such as, inefficient use of resources resulting in poor product quality accompanied by hidden high cost due to rejection and rework in the course of manufacturing, building up inventory at the various stages in the form of raw materials, work-in-process, finished components, finished products, etc. Another component of the NMCP is the Design Intervention through Design Clinic model for SMEs with the main objective of bringing the SME sector and Design expertise onto a common platform and to provide expert advice and solutions on real time design problems, resulting in continuous improvement and value addition for existing products. Other interventions under the NMCP include assistance for attaining Quality Standards and Certification, improving use of ICT, enhancing familiarity with Intellectual Property Rights (IPRs) compulsions and benefits in the manufacturing sectors and so on.

**Technology Mission:** The Ministry is also in the process of establishing a Technology Mission with the objectives of promoting new and appropriate technologies for MSMEs, assessing present levels of technology and their forecasting, setting up technology information centres/data banks and an IT portal for information dissemination, carrying out detailed technology audits. This would also encourage research and development, create incubator infrastructure facilities in various technical institutions, motivate MSMEs to obtain BIS/ISO certification and organise awareness campaigns among the MSMEs for quality, standardization and customer satisfaction.

### **Skills**

**Skill Development:** The Ministry of MSME has taken up several initiatives to develop skills in different trades/disciplines. For skill development of the entrepreneurs and their employees, the MSME Development Institutes, Regional Testing Centres, Field Testing Stations and autonomous bodies like Tool Rooms, Product-cum-Process Development Centres (PPDCs) and Central Footwear Training Institutes (CFTIs) of the Ministry conduct long term, short term, trade/field-specific and industry-specific tailor made courses as well as vocational training programmes. The efforts help in skill development and in creation of self-employment opportunities. A good number of trainees have set up their own enterprises in creating employment opportunities. The Ministry is at present training more than 1, 10,000 persons per annum both for business and technical skill development,

which is among the largest programme by any single Ministry in India. The Ministry is also focusing on socially backward groups and on least developed areas under its 'Outreach Programme'. The Packages for Promotion of Micro and Small Enterprises announced recently provides for training of 50,000 entrepreneurs through specialized courses run by MSME Development Institutes for new as well as existing micro and small entrepreneurs, formulation of a new scheme to provide financial assistance to select management/business schools and technical institutes to conduct tailor-made courses for new as well as existing micro and small entrepreneurs and provide financial assistance to 5 select universities/colleges to run 1200 entrepreneurial clubs.

### **Other Support**

**Marketing and Procurement:** Under Government Stores Purchase Programme, various facilities are provided to enterprises registered with National Small Industries Corporation (NSIC) in order to assist them for marketing their products in competitive environment. These facilities are (i) issue of Tender Sets free of cost; (ii) exemption from payment of Earnest Money Deposit; (iii) waiver of Security Deposit up to the Monetary Limit for which the unit is registered; and (iv) price preference up to 15% over the quotation of large-scale units. In addition to these facilities/benefits, 358 items has also been reserved for exclusive purchase from the MSE Sector. However, as these guidelines were/are not of a mandatory nature, the same has failed to achieve the desired results. To assist the MSEs in marketing of their products, Section 12 of the new MSMED Act enjoins the formulation of a scheme of preferential procurement of goods/services produced/rendered by MSEs both at the Central and State/UT levels. Once formulated, the procurement scheme may be more effective in providing the much-needed marketing support that MSEs seek so desperately. Each Ministry/Department, CPSU, etc would have to make specific mention of the compliance of the preference policy in its Annual Report to be tabled in Parliament.

**Export Promotion:** Export Promotion from the MSE sector has been accorded a high priority. To help MSEs in exporting their products, the following facilities/incentives are provided:

- (i) Products of MSE exporters are displayed in international exhibitions and the expenditure incurred is reimbursed by the Government;

(ii) To acquaint MSE exporters with latest packaging standards, techniques, etc., training programme on packaging for exporters are organised in various parts of the country in association with the Indian Institute of Packaging;

(iii) Under the MSE Marketing Development Assistance (MDA) Scheme, assistance is provided to individuals for participation in overseas fairs/exhibitions, overseas study tours, or tours of individuals as member of a trade delegation going abroad. The Scheme also offers assistance for (a) sector specific market study by MSE Associations/Export Promotion Councils/Federation of Indian Export Organisation; (b) Initiating/contesting anti-dumping cases by MSE Associations; and (c) reimbursement of 75 per cent of the onetime registration fee and annual fee (recurring for first three years) charged by GSI India (formerly EAN India) for adoption of Bar Coding.

**Strengthening of Database:** A reliable database is considered to be the input for the decision making process. This is more so for the MSME sector in view of its large size and wide disparity among the enterprises within the sector. The Ministry has so far conducted three Censuses in the year 1971-72, 1992-93 and 2002-03 for strengthening/updating the database on MSE sector. However, the long gap between the Censuses has limited the reliability of the MSE database.

To strengthen the data base of the MSME Sector, statistics and information will now be collected in respect of number of units, employment, rate of growth, share of GDP, value of production, extent of sickness/closure, exports and all other relevant parameters of micro, small and medium enterprises, including khadi and village industry, through annual sample surveys and quinquennial census. The quinquennial census and annual sample surveys of MSMEs will also collect data on women-owned and/or managed enterprises.

**Inclusiveness:** The Ministry of MSME launched a special programme, namely, “**Outreach Programme for Skill Development in Less Developed Areas**” in September 2006. Under this programme, the field offices of the Ministry organize short-term skill development programmes in the less developed areas. Such short-term courses are tailor made for these areas so as to enable trainees to get employment or start self-employment ventures. These programmes are of short duration of 1-3 weeks and the activity selected for trainees are relevant to the local requirement. The target group consist wholly or partly of disadvantaged sections. Further, under the recently announced

Promotional Package for MSEs, 20% of Skill Development Programmes have been reserved for weaker sections along with the provision of a stipend of Rs. 500 per capita per month exclusively for SCs/STs, women and physically handicapped. In case of the regular EDP/MDP/Skill Development programmes, a nominal fee of Rs. 100 is charged. However, there is no fee for SCs/STs, women and physically handicapped candidates.

India's pioneering policies for the development of MSEs Offers case studies for the developing world. Government has moved away, though not yet fully, from its role of direct interventions to that of a friend and facilitator. There is growing realization that protection in the form of reservation needs to be replaced with easy access to capital, technology and skill development to integrate the MSMEs more firmly with the domestic and global economy. And these are now the specific target areas of the Ministry of MSME.

### **THE ELEVENTH FIVE YEAR PLAN**

The Eleventh Plan approach to the MSE Sector works a shift from the welfare approach to that of empowerment. The plan looks at this sector as an engine of sustained and inclusive economic growth and employment. The strategy is to focus on livelihood and social security. This is not just a rights issue but also makes economic common sense artisans and entrepreneurs can be most productive only when they are physically and mentally fit.

- (i) The Eleventh Plan considers the MSE sector as an important segment of industry which is unorganised and hence needs support and access to all schemes of industry with special enabling provisions,
- (ii) Support for women's empowerment and minority development has been stressed upon in the Prime-Minister's 15-point programme and in other flagship schemes of the government. Mostly the tribes, SCs, minorities and women are engaged in the small of micro sector. In the handloom sector alone, 60.6% weavers are women, 10.76% belong to SCs, 25.5% to STs and 42.65% to OBCs.
- (iii) The plan will organise MSE sector in order to create clusters and SHGs of weavers/artisans to improve their bargaining power and to enable them to pool resources. These groups, comprising weavers, artisans and entrepreneurs, will be given full control over

cluster decisions and will be provided support in the form of credit, inputs, expertise and marketing links,

(iv) These are no sub-targets for MSE sector within the overall stipulated 40% ceiling for the priority sector lending. Following sub-targets are already fixed:

Agriculture	18%
Weaker Sections	10%
MSE, Real Estate, Housing, Education Retail etc.	12%

(v) Most of existing schemes have already been suitably modified and reorganised. These will continue during the Eleventh Plan period along with addition of some new schemes.

(vi) The Ministry of MSME will establish a Technology Mission to promote new and emerging technologies, assess present levels of technology and their up gradation, set up technology information centres/data banks and an IT Portal for information dissemination to carry out detailed technology audits.

(vi) An outlay of Rs. 11,500 crore has been allocated to ministry of MSME, out of which Rs. 4000 crore is for DC (MSME) and Rs. 7,500 crore is for agro and rural industries.

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#### **4.6 CHALLENGES BEFORE SSI IN THE ERA OF GLOBALIZATION**

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Small scale enterprises play a very vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realizing various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. (Small scale industries are not in a position to play their role effectively due to various constraints.

The various problems faced by small scale industries are as under:-

**1. Finance:** Finance is one of the most important problem confronting small scale industries. Finance is the life blood of an organisation and no organisation can function

properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facility are the major causes of this problem. Firstly adequate amount of funds are not available and secondly entrepreneurs due to their weak economic base, have lower creditworthiness. Neither they neither are having their own resources nor are others prepared to lend. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations. After nationalisation banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate their working adequate credit on easier terms and conditions must be provided to them.

**2. Raw Material:** Small scale enterprises normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors are going to adversely affect the functioning of these units. Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

Non-availability of quality raw materials such as dyes and yarn (especially for handlooms and power looms); vital inputs such as power (for power looms, handicrafts, other industrial MSEs); and proper packaging facilities continue to be a major bottleneck. Lack of credit combined with inadequate raw materials often forces weavers, artisans, and entrepreneurs into the clutches of loan sharks and middlemen. The modern manufacturing MSE units are also constrained due to non-availability of quality raw materials in adequate quantity. Though the National Small Industries Corporation (NSIC) and State Small Scale Industries Development Corporations are providing some raw materials, their efforts are not in consonance with the requirements.

**3. Technology:** Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of production they are confronted with the

problems of less production of inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

**4. Idle Capacity:** There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this underutilisation are shortage of raw material, problem associated with funds and even availability of power. Small scale units are not fully equipped to over-come all these problems as is the case with the rivals in the large scale sector.

**5. Infrastructure:** Infrastructural bottlenecks adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts. Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical or unviable.

**6. Marketing:** These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion. With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore in competition, organisations with better equipped large scale units are placed in a relatively disadvantageous position. In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various governmental agencies like Trade Fair—Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

**7. Underutilisation of Capacity:** Most of the small scale units are working below full potentials or there is gross underutilisation of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use

of their machinery and equipments. On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross underutilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

**8. Skilled Manpower:** A small scale unit located in a remote backward area may not have problem with respect to unskilled workers but it may be exposed to the problem of non availability of skilled workers. Firstly skilled workers may be reluctant to work in these areas and secondly the enterprise may not afford to pay the wages and other facilities demand by these persons. Besides non availability entrepreneurs are confronted with various other problems like absenteeism, high labor turnover, indiscipline, strike etc. These labor related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

**9. Project Planning:** Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement. They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects is not at all given due weight age. Inexperienced and incompetent entrepreneurs often submit unrealistic feasibility reports and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs do not fully understand project details. Moreover due to limited financial resources they cannot afford to avail services of project consultants. This results in poor project planning and execution. There is both time and cost overrun which adversely affect interests of these small scale enterprises.

**10. Managerial:** Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves. Thus, he must be fully conversant with all aspects of management. Many small scale units have turned sick due

to lack of managerial competence on the part of entrepreneurs. An entrepreneur is required to undergo training and counseling for developing his managerial skills. Lack of proper commitment and managerial skills will add to the problems of entrepreneurs. The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds & consultancy services, lack of creditworthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

**11. Dispersed and Unorganised:** The dispersed, unorganized nature of the industry also raises issues of quality, bulk production, and inability of meeting big orders. Often individual units lack packaging facilities. As a result, markets, especially for traditional MSEs, are shrinking and workers are experiencing a dip in wages. Moreover, as most non-traditional, MSEs serve as 'captive units' for big industries, often workers, especially women do not get paid until the product is picked up. The situation is same for the traditional sector where payments are made by traders and even government corporations only after the stock is sold. Thus money is held up, further impoverishing the workers.

**12. Obtaining Environmental Clearance:** The MSEs engaged in manufacturing of products such as paints, dyes and chemicals, explosives, minerals, leather and leather goods, etc., pollute the environment. These units have to obtain non-pollution certification from the concerned pollution control agencies of the State.

**13. Arranging Security & Guarantee.** Lending to micro enterprises, which is stipulated at 60% of the total credit to MSE sector, has fallen from 51.2% in 2002-03 to 45.1% at the end of 2005-06. Moreover, difficulty in arranging collaterals or third-party guarantees continues to be a problem. Though the RBI has issued instructions to advance collateral free loans up to Rs. 5 lakh, at the end of 200506, only 24% of the total outstanding loans under Rs. 5 lakh were without collaterals. The high cost of credit to MSEs also impacts the competitiveness of their products.

**14. Insufficient Market Research, Linkages, and Design Inputs:** Most MSEs do not have money to invest in market research and are unable to carry out design and technical improvements to keep up with market demands. Unlike big businesses, they

cannot invest in advertising and packaging. This limits their ability to tap markets and attract consumers. Most people are unaware of Chamba Chugh, natural fiber purses and cushion covers, passion fruit pickles, Bhuvashtra (garment of the Earth—made in coir), Chamba Chappals, Camel Hair Carpets (which do not burn) of Jodhpur, and the intricately carved tables of Ladakh. MSEs, especially those pertaining to traditional livelihoods, are therefore, increasingly being forced to rely on middlemen, petty traders, and big businesses to market their products. This has reduced many to the status of daily workers, earning less than the minimum wages.

**15. Other Problems:** Due to the unorganized nature of the sector, entrepreneurs and artisans/workers face difficulties in accessing government schemes. Consequently, the workers engaged in the MSE sector—and these are often the most vulnerable and poor—have very little bargaining power and are exploited by the middlemen, unit owners, and big business houses. Unable to take up aggressive marketing, like big industries, they cannot find markets despite good quality and competent prices.

**16. Miscellaneous Problems:** Although Indian MSMEs are a diverse and heterogeneous group, they face some common problems, as follows:

- (a) Lack of availability of adequate and timely credit. The major dependence for some sectors (e.g. Handicrafts) is for larger working capital requirement, which directly impacts their production cycle.
- (b) High cost of credit, with interest rates of 14-16%.
- (c) Collateral requirements being insisted upon by banks.
- (d) Limited access to equity capital for MSMEs.
- (e) Marketing is one of the critical areas where MSMEs face problems including product differentiation, brand building, customized tailor-made services, clientele building, after sales servicing etc. Many entrepreneurs are not entering in the field of exports due to lack of market knowledge, availability of a growing domestic market, and the complexities of international trade.

- (f) Limited scale of operations leads to low production capacity (and consequent low exportable surplus), which is related to be maximum limits for capital investment for definition of MSME.
- (g) Problems of designing, packaging and product display due to limited capacities financial and human.
- (h) Inadequate infrastructure facilities, including power, water, roads, etc. which are however not unique for MSMEs, but impact manufacturing more than services
- (i) Low technology levels and lack of access to modern technology.
- (j) Lack of skilled manpower.
- (k) Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily.
- (l) Lack of coordination among the various organizations involved in the promotion of MEMEs, including organizations of the State Governments, and poor linkages with the institutional stakeholders in the private sector. There is also duplication of programmes run by various Ministries for the same target group.
- (m) Lack of reliable and updated data base to help in monitoring the development initiatives and formulation of appropriate schemes to meet the differential needs of the heterogeneous beneficiaries.
- (n) Non availability of raw materials at a competitive cost, very often due to low volumes.
- (o) High transaction costs and procedural delays leading to high fixed costs.
- (p) Policy and procedural issues.

The small scale entrepreneur have to encounter numerous problems relating to over dependence on institutional agencies for fund and consultancy services, lack of credit worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

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#### **4.7 SMALL BUSINESS AS A SEED BED OF ENTREPRENEURSHIP**

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Seedbed refers to the preparing of soil for the sowing of seeds so that we may have good crop. Small business is regarded as a seedbed for entrepreneurship as it provides conducive conditions for the emergence and growth of entrepreneurship. Small scale units employ available technology and can be started with less investment. They are going to all scale units using local resources and can be dispersed over a use local resources and cater mainly to local demand. These units normally revolve round one individual who is called upon to perform various roles. He is the owner, manager and risk bearer and hence can be call an entrepreneur. The emergence, growth and success of entrepreneurs is linked with the growth of small business. The government of India too has given small scale industry an important place in the framework of economic planning for economic and ideological reasons. Thus setting up of more small scale units will create more opportunities for entrepreneurial development and more and more educated unemployed will come forward for setting up their own enterprises. It will usher in an era which in enterprising persons will assume entrepreneurial career in future.

Small enterprises are called seedbed of entrepreneurship due to the following reasons:

1. Small scale enterprises can be started with less investment which can be contributed by the promoter or arranged from friends and relatives.
2. Small scale units carry on business scale and as such the element of risk is too less.
3. Small scale units are generally based on local resources and as such there is no problem regarding their availability.
4. Small scale entrepreneur adopts labour intensive technology. Thus he generated employment for himself as well as for others.
5. Small scale units can be located anywhere and thus help in the development of backward areas of the country.
6. Small scale units generally cater to local demand and necessary modifications can be made in the products keeping in mind the changing demand of people.

7. Small scale units provide ample opportunities for creativity and experimentation.
8. Small scale units have shorter gestation period and hence waiting period for getting return on investment is less.
9. These units are relatively more environmental friendly.
10. Small scale units help in building achievement motivation amongst entrepreneurs.
11. Small scale units are viewed favorably by the government and society because these help in equitable distribution of income and wealth.

Keeping in mind the above potentials of small scale industry as a developer of entrepreneurial talent, the government of India has facilitated this sector by providing it with various concessions and incentives.

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#### **4.8 EXPORT POTENTIAL OF SMALL UNITS**

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##### **Rationale behind Export Promotion or Export Potential of Small Units**

The capability of Indian SSI products to compete in International markets is reflected in its share of about 35% in national exports. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable both in terms of value and their share within the SSI sector while in some cases like sports goods they account for 100% of total exports. In view of this, export promotion from the small scale sector has been accorded high priority in India's export promotion strategy which includes simplification of procedures, incentives for higher production for exports, preferential treatments of SSIs in the market development fund, simplification of duty drawback rules, etc in the market development fund, simplification of duty drawback rules, etc. Products of SSI exporters are displayed in international exhibitions free of cost.

##### **Towns of Export Excellence**

A number of towns in specific geographical locations have emerged as a dynamic industrial locations handsomely contributing to India's exports. These "Industrial Clusters" rooted in history symbolize the bursting forth of the free market spirit and are essentially collective response to common problems of competitiveness. Some have become globally famous.

A number of such industrial cluster towns are exporting a substantial portion of their products which are would class. For example, Tripura is exporting 80% of their production in hosiery. A beginning is made to consider industrial cluster towns such as Tripura of hosiery, woolen blanket in Panipat, (Haryana), woolen knitwear in Ludhiana (Punjab) to be eligible for special benefits.

### **International Exposure to SSI Products**

With a view of rendering assistance to small scale units in the field of exploring market potential, export promotion and exhibitional publicity, the following schemes are being implemented:

**2. Participation in International Exhibitions:** Participation in selected international exhibitions is organized by SIDO to assist SSI sector in exhibiting their products without incurring expenditure towards participation by them. All the charges pertaining such as space rent, display of exhibits, shipment of exhibits, handling and clearing, insurance, etc. are met by SIDO for selected SSI units for displaying their products in international exhibitions abroad. Customer's enquiries generated during such exhibitions abroad are promptly disseminated to the SSI units to explore the possibilities of exporting to new foreign buyers/ markets etc. Under this scheme, SIDO participates in six to seven selected international exhibitions annually.

Under the scheme of Market Development Assistance operated by Ministry of Commerce & Industry, assistance is provided to SSI units for undertaking sales-cum-study tours abroad for participation in fare/exhibitions abroad, SSI units are eligible to get 90% of the cost of airfare/space rent including decoration, electricity, water, subjected to prescribed ceilings.

**3. Training Programme on Packaging for Exports:** Packaging plays a very important part in the present day marketing, especially in export marketing. The professional guidance in the field of packaging is expected to go along way in improving the overall marketability of small industry products, both in internal and overseas market.

The programmes on packaging for exports are organized in various parts of the country to acquaint SSI exporters of the latest packaging techniques / standards. These programmes

are organized in association with Indian Institute of Packaging which provides the necessary expertise in the matter. The basic objective of this scheme is to impart training to small scale manufactures of packaging technology, effectiveness on various aspects of package aesthetics, style, etc. to improve the overall appearance, durability and value of the package.

Every year, on an average, 20 such programmes are organized by SSIs for various industry groups.

### **Forex Earning (Foreign Exchange Earning)**

The Small Scale Industries (SSI) sector in India has over the last five decades, played a significant part in building a strong and stable national economy. Today, it is producing more than 7500 products accounting for almost 40 percent of the total production of the manufacturing sector and 35 percent of the total exports. It also acts as a nursery for promoting entrepreneurial talent and acts as a catalyser of industrial growth through a wide network of more than 3 million units in the country. Indian entrepreneurs, through SSIs, is one of the largest employers in the country, providing direct employment to an estimated over 17 millions persons and earning a large amount of foreign exchange by exporting a wide range of products to various countries. India today operates the largest and oldest programme for the development of small scale industries in any developing country. In order to achieve the strategic objectives of a self-reliant and dynamic economy, expansion in export earnings are of great importance. Exports enable the country to pay for critical imports - machinery, metals, petroleum, fertilizers, and new technological inputs - set up the pace of economic development. These exports are also instrumental in the agricultural sector as well as in the medium and large scale industrial sector.

In order to achieve national objectives, especially since 1991, the government has adopted new scientific approach to its export policy, which has been an integral part of the country's overall strategy for economic development. The new policy consciously aims at development of exports of those items where a comparative advantage has. The stress has been based on qualitative up gradation of the small scale industrial structure and improves international competitiveness of manufactured goods and services.

## **Export Potential of Small Scale Units**

Given the weaknesses of small scale sector, one cannot conclude that small sector has no strong point which will help them to emerge as a global player. The small units are inherently flexible to react to market signals and changing tastes. This makes small enterprises more innovative and opens new ideas. Opportunities exist for small scale sector to emerge a strong global player especially in the exports of the following products:-

### **Food Processing Industries**

India has been the second largest producer of a very wide variety of fruits and vegetables in the world. But, it processes less than one percent of production. The figure of India is far behind the figures of 30 percent of Philippines and 83 percent of Malaysia. At the end of 1992, the number of processing units registered under Fruit Products Order was 4057 of which 87 percent belonged to small scale and cottage industries sector. However, India's share in the world exports of fruit and vegetable and fish and fish product is just 0.3 percent and 1.7 percent respectively. The major reasons for country's low share in the international market have been over dependence on a few recognized international markets. Lack of quality control, poor packaging, high cost of production, inadequacy of infrastructure like transport & power and non availability of required inputs at right time & price are the major issues. Considering the growing international demand for processed foods, the items which hold good potential for exports from India are sea foods, spices, cashew nuts, fruits and vegetables, fruit pulp, juices, jams, pickles, canned fruits and vegetables, dehydrated vegetables and guar gums.

### **Leather Goods**

India has the largest cattle population and thus, has a substantial raw material base for leather based industries. At present, the country's share in the world leather market is about 4 percent and this sector holds potential for exports. However, this sector is played by certain weaknesses also. These are low volume of production units, poor quality, lack of standardization, poor delivery and absence of technology upgradation. These weaknesses need to be attended to expeditiously and adequately tap the export potential of leather goods in the country.

### **Electronic Goods**

The electronic industry has registered a phenomenal compound growth rate of 35 percent during the last decade 1981-90. The share of small sector, in 1993-94, was 40% of output and 30% of exports of electronic industry. Though the small scale industrial units have been exporting items from ordinary to hi tech products, yet its share in the global market is very low just 0.15 percent and that too 80% exports are from Export Processing Zones alone. The electric Industry holds tremendous potential needs to be tapped.

India has the third largest technical manpower in the world. Recently, the technically qualified people have started assuming the role of exporters. Some of them have made an impressive headway in export within a short period. What is needed is to provide them support in terms of developed industrial sheds/plants and credit facility.

### **Plastic Goods**

The plastic industry has made an impressive growth in recent years. A present out of 18500 units manufacturing various industrial and consumer plastics, around 18,000 units are in small sector. The items of plastic exports include carrier bags, garbage bags, shopping bags, woven seeks, plastic moulded household items like insulated thermowave, pens, spectacle frames, PVC hoses, PVC leather cloths, etc. In 1992-09 the small scale sector counted for 45 percent of these exports. There still exists enough scope to diversify the products and penetrate new markets. The main problem this industry is facing is shortage recycling of plastic waste industry. These are some of the illustrative items and not an exhaustive list of exportable items. It definitely shows the good potential of small scale industry sector to increase its export in the coming year.

### **Suggestion to Improve Exports**

The Government of India has accorded high priority to the development of small scale industries in the country. Under the protective and promotional policies of the Government, the small scale enterprises have made their presence felt nationally and internationally. The share of small scale enterprises in the country's exports has risen from 11 percent in 1970-71 to 35 percent in 1993-94. Realising the good export potential of small sector, the Board of Trade and Ministry of Commerce have identified 8 sectors and 15 items

respectively for boosting exports from the small scale sector. However, the bug near of the sector has been the inadequacies of capital, technology and marketing. If the export potential of small scale enterprises is to be trapped to the full extent, then the issues like simplification of procedures, easier access to the bank and institutional credit, improvement in infrastructure and marketing issues need to be attended to expeditiously and adequately. Then, it would not be difficult for the small scale enterprises to help the country achieve a target of at least 1.5 percent share in the world export in the next 10-15 years. We wish our small enterprises a vibrant player in the international market.

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#### **4.9 MEANING OF TQM**

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**“Quality is never an accident; it is always the results of an intelligent effort.”**

**Quality Definition:** Quality can be stated as the satisfaction of agreed customer requirements. Total quality can be defined as the mobilization of the whole organization to achieve quality continuously and economically, many organizations feels that satisfying the ever increasing demands of customer will result in increased expenditure making for reduced profits or financial losses. Tom is a concept that will have the double benefits of not only satisfying the customers but also doing so in such a way that the organization gains significantly in its profitability.

TQM is thus a corporate business management philosophy which recognizes that customer needs and business and goals are inseparable. It is suitable for industry, commerce and service as well.

#### **British Quality Association**

“British Quality Association Quality means getting everyone to do what they have agreed to do and to do it right the first time is the skeletal structure of an organization finance is nourishment and relationship are the soul.”

“Quality is never an accident, it is the result of an intelligent effort there must be a will to produce superior/things services”

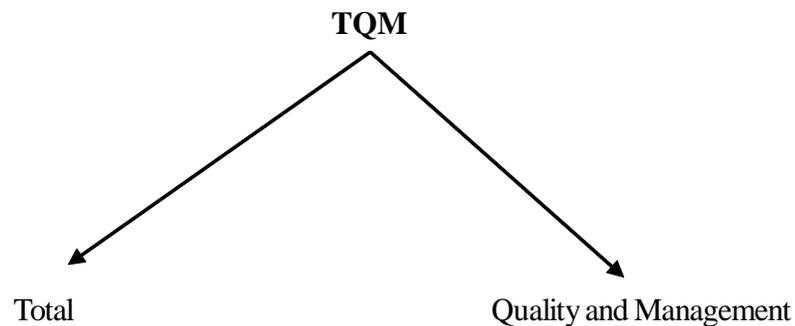
“Quality is what the customer say it is” **A.V. Feignbaum**

TQM is the totally integrated effort for gaining competitive advantages by continuously improving every activity.

TQM means all people in the organization are committed to product? Service

quality by doing right thing right, the first time every time by employing organizational resources to provide value to customers.

TQM provides the overall concept that fosters continuous improvement. TQM is necessity, a never ending journey. It is a way to survive and succeed. Indian organization, large or small scale has to implement if they want to survive.



Total means involvement at all levels in continuous improvement. It involves every department. Function and process in a business and active, Commitment of all employees to meet the customer needs. In this regard the customers of each employee are separately and individually identified.

Quality management means that the customer express and implied requirements are met fully.

#### **4.9.1 Elements of TQM**

Every entrepreneur must set out the relatively straight forward principles to total quality which are as follows:

**(a) Understand the Customer:** Everyone in the organization must understand the customer's requirements and how the SSI performing to achieve these requirements. The

business must delight the customer by bringing best at what really matters most to the customers.

**(b) Motivation:** Everyone within the organization is both a customer and supplier of someone else. They should be motivated to strive continuously to satisfy customers both internally and externally.

**(c) Clarity of roles:** Everyone in the organization should be clear about his role towards maintaining quality. TQM is about internal and external each individual in the organization is assigned some job or customer for which be accountable. The mindset of different people within the organization has to be shaped leading to acceptable quality. Members should be involved in solving quality, cost and production problems.

**(d) Education and training:** TQM ends and begins with training. Total employees must not be only educated, trained but also empowered to participate in all group activities. Employees should be trained to treat humans with respect and consideration. Rational human behavior should be shown in conversation.

**(e) Strong leadership:** Although YQM involves with every employee of the organization but strong and effective leadership must travel vertically. TQM should be led by senior members and horizontally, senior management of the organization should be acting in union. A strong relationship will maximize efficiency, effectiveness, promote excellence prevent errors and ensure that every aspect of the business is aligned to customer needs. It will lead to advancement of business goals without duplication or waste of efforts. Leaders can establish their credibility with their personal qualities.

**(f) Strategic quality planning:** Be it large small or medium business, planning is always an essential forerunner to action. The entrepreneur must involve and inform the senior colleagues in the quality planning processes and on the other side, senior must be committed to the idea of TQM. Strategic quality planning will help the project progress flawlessly. Every pitfall must be considered in advance and planned for the entrepreneur himself or his senior colleagues must play an impartial and rational role. The members attending the meeting should spend enough time and depending on the complexity of the

matter. They should analyse customer needs, product and process and process in preparation for implementing quality control.

**(g) Continuous improvement:** TQM is management process that recognizes that however much we may improve and our customers will always expect more from us. Quality management is not a static process and its regular monitoring is necessary.

**(h) Team work:** TQM is an integrated organizational approach which aims to delight the customers by meeting their expectations on a continuous basis though everyone involved in the organization. Everyone with a team spirit have to work on continuous improvement to provide value to customers lack to team work. Low quality corporate culture, weak links can result in a poor quality product.

TQM is firmly established and likely to remain a permanent feature of business and commerce.

#### **4.9.2 Essential Features of TQM**

The essential characteristics of an effective TQM system are:

1. Every company member, from the CEO to the lowest level employee, is focused on product or service quality. If management is not behind TQM, then it will fail.
2. Everyone must have the required training and be familiar with the necessary TQM techniques.
3. Anyone can suggest areas for improvement - as general operatives will be more familiar with their work station than anyone else is, valuable ideas for improvement at a production line level can, in many cases, come from line workers.
4. All departments are expected to focus on quality and productivity improvement and implement changes for their area.
5. In addition, all departments interact with each other to fix common problems in the product or process.

6. Collaboration on external issues (end-user defects for example) is expected from all departments.
7. Decisions made are based on the best solutions, not on hidden agendas or favoritism.
8. Quality becomes a governing part of operations, with decisions that impact on quality, rejected immediately, despite perceived cost-savings involved.

An effective TQM implementation will result in:

- Highly trained management (as training is mandatory for effective company-wide transformation).
- An effective change management process.
- Continuous improvement programs.
- An ability to handle changing market requirements at short notice.
- A system that can pinpoint negligence with corresponding penalties (including termination of employment) for deliberate offenses that impact on process or product quality.

#### **4.9.3 TQM in SSI**

TQM is largely contributing to the country in terms of employment, exports, wide range of products, Dispersal of industries, forex earnings etc. Throughout the Europe, economies are upto a large extent are dependent on the success of small scale sector. In United Kingdom alone more than 70% of all company employ under 100 peoples. This sector has to remain vibrant of the economies are to prosper but unfortunately small businesses are known for their low quality products, poor services to customers and unbranded products sold by them. In the dace of global competition, SSI can afford to remain intensive to ever increasing demands of customers. Their survival depends upon their implementation of TQM. The question may arise that why should SSI bother about.

TQM will not only satisfy their customers but also increase their profits. By adopting TQM, SSI can save costs by reducing waste and efficiency. Privatization had already hit the small business quite hard. The entrepreneur must demonstrate enough business acumen in order to compete with overseas companies and larger domestic companies. Due to poor work culture, lack of quality consciousness faculty financial planning their survival has been threatened. Although SSI have the potential advantage of flexibility and faster speed of response over larger companies but due to absence of TQM their clientele is badly hit.

**Dr. Edward Deming** says “In the future there will be two kinds of companies those who have implemented total quality and those who have gone out of business. You don’t have to do this. Survival is not compulsory.

TQM is the only answer to ever increasing problems of small business sooner or later they must develop continuous improvement through total quality. As the competition is increasing the basis for competitive advantage is becoming quality and economy. TQM is therefore seen as an approach to gaining or sustaining a competitive lead.

### **Advantages**

In aggregate, TQM offers the following advantages to small enterprises:

- Increased efficiency in processes
- More time for innovation and creativity
- Higher morale of employees
- Improvement in the quality of products and services
- Increased customer satisfaction
- Larger market share
- Higher productivity
- Higher profits

#### 4.9.4 TQM Process in SSI

The purpose of TQM is to meet the requirements of customers consistently by continuous improvement in the quality of work of all employees. For this, TQM involves the following process:

1. Customer Satisfaction
2. Processes
3. Continuous Improvement
4. Team work
5. Personal Initiative

A brief description of these follows:

##### **Customer Satisfaction:**

Customer is one who buys the goods and services from others for consumption. Today, customer dictates production or market. The long term success of any business, therefore, depends on customer satisfaction. This is especially true for small business where the impact of losing even a single customer can be serious. The first step in planning for customer satisfaction is to understand what customers expect from the product or service is to be provided to them. For any business, there can be two types of customers: internal and external. *Internal customers* are those individuals or departments within an organization to whom another department provides their products and services. *External customers* are those who are the ultimate purchaser or end user of product or service.

The following steps can be followed to understand customer requirements:

1. Document the results of the work performed.
2. Identify everyone (customer) who receives the outputs.
3. Pinpoint the output characteristics the customers want, require, or expect.

4. Verify output requirements, determine requirement importance and understand current level of satisfaction.

## **Processes**

Process can be defined as a series of inter- dependent tasks that produce results. This requires transformation of inputs into outputs. Processes exist in every part of an organisation. People mistakenly think of only production or manufacturing operations. In fact, the word 'process' is all embracing one. As every part of an organization performs work, all these should be systematically defined to include them in the process. Administration, billing, sales, maintenance, recruitment, and training are the examples of different parts of organization in which process exists. It may be true that there may be some processes in the organisation that are obvious, while others may not be so obvious. Such process needs to be clearly defined. The various steps that can help define the processes that any organization performs are listed in the following figure:

1. **List team outputs**  
(to document the results of the work performed).
2. **Group similar outputs**  
(to create an outline of the process).
3. **Name the process**  
(to allow it to be easily referenced)
4. **Define process boundaries**  
(to establish beginning and ending points)
5. **List process activities**  
(to provide examples of the tasks involved)

## **6. Identify inputs**

(to determine the resources required)

### **Continuous Improvement in Processes**

The third step involved in TQM is making efforts for continuous improvement in performance or process. The step in improving a process is to eliminate the waste associated with the process. But, the question is how to eliminate the waste? The various techniques like value added assessment, minimize checks and inspections and minimize administrative tasks help reduce /eliminate the waste process. Process simplification is the second step involved in improving process. Simplification means reducing the complexity of a process. Further, simplification can lead to fewer activities and fewer things to go wrong. Experience suggests that the simpler a process is , the easier it is to learn and perform consistently. Reducing cycle time is yet another technique to improve process. Cycle time is the time required to deliver a product or service to customer. Cycle time includes delays, processing time, time required to check and handover, and so on. Long cycle times not only prevent prompt deliveries to customers, but also increase costs. Hence, there is need for reduction in cycle time.

### **Team Work**

The fourth element involved in TQM is team work. A team is a group of individual who work together on one or more common processes. These individuals may all be from the same department, represent several departments, or involve an external supplier or customer. The five faculty members in the Department of Business Administrative in Assam Central University responsible for teaching management programme are an example of a team.

Effective team work has its foundations on consensus. Consensus is a general agreement by everyone involved. Consensus is arrived when all members of a team understand a decision, and, even if they do not completely agree with the decision.

## **Encouraging Personal Initiative**

TQM process completes with encouraging personal initiative in organizational functioning. Empowerment breeds personal initiative. According to **Stephen R. Covey**, “An empowered organization is one in which individuals have the knowledge, skill, desire, and opportunity to personally succeed in a way that leads to collective organization success”. Now, the question is how to create an empowered organization to make employees personal initiative in the organizational process? The key to preparing employees to take appropriate personal initiative is to train them in the concepts and techniques of TQM process. Such training helps employees manage the process they are responsible for performing.

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### **4.10 ISO**

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ISO, the International Organisation for Standardisation, is an independent, nongovernmental organisation, the members of which are the standards organisation of the 163 member countries. It is the world largest developer of voluntary international standards and facilitates world trade by providing common standards between nations. Nearly twenty thousand standards have been let covering everything from manufactured products and technology to food safety, agriculture and healthcare. Use of the standards ensures that products and services are safe, reliable and of good quality. The standards help businesses increase productivity while minimizing errors and waste. By enabling products from different markets to be directly compared, they facilitate companies in entering new market and assist in the development of global trade on a fair basis. The standards also serve to safeguard consumers and the end-users of products and services, ensuring that certified products conform to the minimum standards set internationally.

#### **Popular standards**

- ISO 9000 Quality management
- SO 14000 Environmental management
- ISO 3166 Country codes

- ISO 26000 Social responsibility
- ISO 50001 Energy management
- ISO 31000 Risk management
- ISO 22000 Food safety management
- ISO 27001 Information security management
- ISO 45001 Occupational health and safety

### **ISO 9000 Quality management**

The international quality system standards ISO 9000 has been widely applied across a large number of manufacturing industries from engineering to textiles, From chemicals to food and increasingly in non-manufacturing sector including banks, insurance companies, hotels and even colleges for further education. ISO 9000 is a management system that sets up critical data monitoring functions and then ensures that the appropriate authorities are monitoring this data and taking effective corrective action to address deficiencies, contain nonconforming material or services and inform the customer. The benefits of gaining accreditation to ISO 9000 are as follows:

- National and international recognition of the quality systems employed at the company.
- In many sectors of industry, it has become a minimum supplier requirement.
- ISO 9000 represents the basis for most companies' quality development by providing a foundation for future quality improvements.
- Employees are also experiencing a number of benefits in working for ISO 9000 approved organisations.
- Insurance companies also feel assured if their client companies manage product quality.

So that the companies which don't possess ISO 9000 accreditation are not even asked to tender

The ISO 9000 family of quality management systems standards is designed to help organizations ensure that they meet the needs of customers and other stakeholders while meeting statutory and regulatory requirements related to a product. ISO 9000 deals with the fundamentals of quality management systems, including the eight management principles upon which the family of standards is based. ISO 9001 deals with the requirements that organizations wishing to meet the standard must fulfill.

Third-party certification bodies provide independent confirmation that organizations meet the requirements of ISO 9001. Over one million organizations worldwide are independently certified, making ISO 9001 one of the most widely used management tools in the world today. However, the ISO certification process has been criticized as being wasteful and not being useful for all organizations.

### **ISO 14000 - Environmental management**

The ISO 14000 family of standards provides practical tools for companies and organizations of all kinds looking to manage their environmental responsibilities.

ISO 14001:2004 and its supporting standards such as ISO 14006:2011 focus on environmental systems to achieve this. The other standards in the family focus on specific approaches such as audits, communications, labelling and life cycle analysis, as well as environmental challenges such as climate change.

### **ISO 3166- Country Codes**

ISO 3166 is the International Standard for country codes and codes for their subdivisions. The purpose of ISO 3166 is to define internationally recognised codes of letters and/or numbers that we can use when we refer to countries and subdivisions. However, it does not define the names of countries. Using codes saves time and avoid errors as instead of using a country's name (which will change depending on the language being used) we can use a combination of letters and or numbers that are understood all over the world.

For example, all national postal organizations throughout the world exchange international mail in containers identified with the relevant country code. Internet domain name systems use the codes to define top level domain names such as '.fr' for France, '.au' for Australia. In addition, in machine readable passports, the codes are used to determine the nationality of the user and when we send money from one bank to another the country codes are a way to identify where the bank is based.

### **ISO 26000 - Social responsibility**

Business and organizations do not operate in a vacuum. Their relationship to the society and environment in which they operate is a critical factor in their ability to continue to operate effectively. It is also increasingly being used as a measure of their overall performance.

ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society.

### **ISO 50001 - Energy management**

Using energy efficiently helps organizations save money as well as helping to conserve resources and tackle climate change. ISO 50001 supports organizations in all sectors to use energy more efficiently, through the development of an energy management system

### **ISO 31000 - Risk management**

Risks affecting organizations can have consequences in terms of economic performance and professional reputation, as well as environmental, safety and societal outcomes. Therefore, managing risk effectively helps organizations to perform well in an environment full of uncertainty.

### **ISO 31000:2009**

*ISO 31000:2009, Risk management - Principles and guidelines*, provides principles, framework and a process for managing risk. It can be used by any organization regardless

of its size, activity or sector. Using ISO 31000 can help organizations increase the likelihood of achieving objectives, improve the identification of opportunities and threats and effectively allocate and use resources for risk treatment.

However, ISO 31000 cannot be used for certification purposes, but does provide guidance for internal or external audit programmes. Organizations using it can compare their risk management practices with an internationally recognised benchmark, providing sound principles for effective management and corporate governance.

### **ISO 22000 - Food safety management**

The ISO 22000 family of International Standards addresses food safety management.

The consequences of unsafe food can be serious and ISO's food safety management standards help organizations identify and control food safety hazards. As many of today's food products repeatedly cross national boundaries, International Standards are needed to ensure the safety of the global food supply chain.

The ISO 22000 family contains a number of standards each focusing on different aspects of food safety management.

### **ISO/IEC 27001 - Information security management**

The ISO 27000 family of standards helps organizations keep information assets secure.

Using this family of standards will help your organization manage the security of assets such as financial information, intellectual property, employee details or information entrusted to you by third parties.

ISO/IEC 27001 is the best-known standard in the family providing requirements for an information security management system (ISMS).

## **What is ISMS?**

An ISMS is a systematic approach to managing sensitive company information so that it remains secure. It includes people, processes and IT systems by applying a risk management process.

It can help small, medium and large businesses in any sector keep information assets secure.

## **ISO 45001 - Occupational health and safety**

Over 6300 people die each day from work-related accidents or diseases - that's nearly 2.3million every year.

The burden of occupational injuries and diseases is significant, both for employers and the wider economy, resulting in losses from early retirements, staff absence and rising insurance premiums.

To combat the problem, ISO is developing a new standard, ISO 45001 *Occupational health and safety management systems - Requirements*, that will help organizations reduce this burden by providing a framework to improve employee safety, reduce workplace risks and create better, safer working conditions, all over the world.

The standard is currently being developed by a committee of occupational health and safety experts, and will follow other generic management system approaches such as ISO 14001 and ISO 9001. It will take into account other International Standards in this area such as OHSAS 18001, the International Labour Organization's ILO-OSH Guidelines, various national standards and the ILO's international labour standards and conventions.

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## **4.11 SUMMARY**

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Small scale Industries are one of the important features of the planned economic development of India. In India this sector has been assigned with the significant role in the industrialization and economic development of the country, as an effective tool in sub serving the national objective of growth with justice. It has emerged as a dynamic and

vibrant sector of the economy during the eighties. All statutes, regulations and procedures would be reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small and village enterprises. It provides ample opportunities for the development of technology and technology, in return, creates an environment conducive to the development of SSIs. The Government of India has initiated various schemes aimed at improving the overall functioning of these units. Financial institutions such IDBI, ICICI, IFCI, SIDBI and commercial banks have also been supporting and promoting technology.

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#### 4.12 GLOSSARY

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- **TQM:** TQM is an effective system of integrating the quality development, quality maintenance and quality improvement efforts of various groups in an organization so as to enable marketing, engineering, production and service at the most economical levels which boost full customer satisfaction.
- **Quality circle:** Quality circle is a group of employees who meet regularly to consider ways of resolving problems and improving production in their organization.
- **ISO:** ISO is an independent, non-governmental international organization with a membership of 162 national standards bodies.
- **Customer Satisfaction:** Customer satisfaction is a marketing term that measures how products or services supplied by a company meet or surpass a customer's expectation.

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#### 4.13 SELFASSESSMENT QUESTIONS

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1. Define small scale industry and explain its characteristics.

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2. What is TQM and explain its benefits?

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3. What are the objectives of small scale industry?

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**4.14 LESSON END EXERCISE**

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1. What do you mean by ISO 9000?

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2. Write and explain five challenges before SSIs due to globalization?

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#### **4.15 SUGGESTED READINGS**

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1. **Desai, Vasant:** “Small Scale Industries and Entrepreneurship”  
Himalayan Publishing House
2. **Desai, Vasant:** “Management of small scale industries”, Himalayan Publications.
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scale business”.