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Semester – II

Entrepreneurship and Small Business Management

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Entrepreneurship and Small Business Management

SYLLABI-BOOK MAPPING TABLE

Entrepreneurship

Syllabi	Mapping in Book
Unit - 1 **Entrepreneurship:** Evolution, concept and definition of an entrepreneur, characteristics, functions and types of entrepreneurs, intrapreneur, qualities of an entrepreneur, growth of entrepreneurship in India, role of entrepreneurship in economic development, women entrepreneurship in India.	**Unit 1:** Entrepreneurship **(Pages 5–29)**
Unit - 2 **Business Opportunity Identification:** Search for business ideas, market assessment, sources of information, modalities of information collection. Environmental analysis, entrepreneurial opportunities in sectors such as manufacturing services, knowledge based industries. Business opportunity identification and selection.	**Unit 2:** Assessment of Business Opportunity **(Pages 31–49);** **Unit 3:** Selection of Business Opportunities in Different Sectors **(Pages 51–67)**
Unit - 3 **Business Plan Preparation:** Meaning of business plan, significance and contents of a business plan, feasibility study.	**Unit 4:** Preparing a Business Plan **(Pages 69–89);** **Unit 5:** Feasibility Study **(Pages 93–105)**
Unit - 4 **Project Finance:** Need for finance, types of finance, sources of finance, venture capital, financial institutions.	**Unit 6:** Project Finance **(Pages 107–133)**
Unit - 5 **Support Agencies:** Need for support, support to entrepreneurs by DIC, SIDBI, SIDCO, SSIB, NSIC, SISI, RDC's, others institutions, etc. Entrepreneurship promotion by government through various schemes.	**Unit 7:** Support Agencies **(Pages 135–156)**
Unit - 6 **Entrepreneurial Motivation and Development:** What is motivation, factors motivating entrepreneurs. Meaning and development programs. Objectives, basic course contents of EDP's, evaluation of EDP's, organization involved in EDP's.	**Unit 8:** Entrepreneurial Motivation and Development **(Pages 157-173)**

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INTRODUCTION

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A person who invests his resources to perform an economic activity is an entrepreneur. Entrepreneurs share certain common characteristics that include ability to work hard, desire to succeed, innovativeness, risk-taking and a vision. It is common to associate the process of entrepreneurship with uncertainty, especially when introducing something that does not have a market yet. Therefore, an entrepreneur needs to be able to seize the right business opportunity after proper research, planning and with sufficient financial backing. In India, there are various support agencies and institutions that offer start-up entrepreneurs with financial assistance, technology and information. Entrepreneurship is the key to a country's economic development, and the Government of India, through its Five-Year Plans and industrial policies, has concentrated on industrial development and supported the development of small-scale industries.

This book is written with the BBA student in mind. It introduces the reader to the concept of entrepreneurship and guides him/her through the complex process of setting up a business. It provides instructions on business planning and financial statements, possible sources of capital, the role of support agencies, and entrepreneurship development programmes. It is presented in a user-friendly format, with a 'Summary' and 'Key Terms' at the end of each unit for quick recollection. The 'Check Your Progress' questions and 'Questions and Exercises' sections will further help in understanding the contents in a better way. Besides, numerous examples are provided in the text.

MODULE - 1

UNIT 1 ENTREPRENEURSHIP

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Structure

1.0 INTRODUCTION

A common exchange medium offers various individuals the chance to think about the different needs of their fellow citizens. As such, they wish to come up with different ideas to invest their resources in a way that satisfies their needs and wants. A person who invests his resources to perform an economic activity is called an entrepreneur. An activity that generates money is called an economic activity. Entrepreneurs with their various ideas and needs start economic activities. They share certain common characteristics that include the ability to work hard, desire to succeed in private business, be innovative, take risks, and have a vision for their business. Entrepreneurship can be seen as the establishment of business operations, such as selling and buying, by an entrepreneur.

It is usual to associate the process of entrepreneurship with uncertainty, especially at the time of introducing something new into the world, something that does not have a market yet. For example, prior to the emergence of the Internet, no one could have conceived of a market for Internet-related business opportunities such as Yahoo, YouTube, Google and Amazon. It was only after the Internet revolution that markets and opportunities for such technology began to be seen. However, even in cases where markets already exist, the existence of such market cannot guarantee the success of a new product in the same category. For instance, a market for cola drinks (created by

Coca Cola) already exists, but it does not guarantee that a new cola drink would enjoy the same market. Therefore, the real question to be considered is whether a market exists, and if it does, does it exist for us?

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1.1 UNIT OBJECTIVES

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

- Define an entrepreneur
- Understand the concept, functions, qualities and types of entrepreneurs
- Understand the meaning of intrapreneur
- Describe the role of entrepreneurship in the economic development of India
- Discuss women's entrepreneurship in India

1.2 CONCEPT AND DEFINITION OF AN ENTREPRENEUR

The term 'entrepreneur' is often used interchangeably with 'entrepreneurship'. But conceptually they are different. An entrepreneur is a creator whereas entrepreneurship is the creation. Entrepreneurship is the tendency of a person to organize his own business and run it profitably, exploiting the qualities of leadership, decision making, managerial calibre, etc. In a way, an entrepreneur precedes entrepreneurship. Entrepreneurship is concerned with the development and coordination of entrepreneurial functions. It is abstract whereas entrepreneurs are tangible persons. Entrepreneurship is a role played by or the task performed by an entrepreneur. The central task of the entrepreneur is to take moderate risks and invest money to earn profits by exploiting an opportunity.

The word 'entrepreneurship' typically means to undertake. It owes its origin to Western societies. But even in the West, the meaning has undergone changes from time to time. In the early sixteenth century, the term was used to refer to army leaders. In the eighteenth century, it represented a dealer who bought and sold goods at uncertain prices. In 1961 Schumpeter used the term 'innovator' for entrepreneur. Entrepreneurship is recognized all over the world in countries such as USA, Germany, and Japan and in developing countries like India.

Entrepreneurs have been described by David McClelland (1961) as being chiefly motivated by the overwhelming desire to achieve something and an intense impulse to build.

Like other economic concepts, entrepreneurship has been a subject of much debate and discussion. It is an elusive concept. Hence, it is defined differently by different authors. While some compare entrepreneurship to 'risk-bearing', others view it as 'innovating' and yet others consider it 'thrill-seeking'. Let us consider some important definitions of entrepreneur and entrepreneurship to get a better understanding of the two terms.

According to Zimmerer and Scarborough, 'An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them'.[1]

[1] Thomas W. Zimmerer and Norman M. Scarborough *Essentials of Entrepreneurship and Small Business Manangment.* Person Education, Chapter 1, pp.17.

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According to John K. and Howard Stevenson, 'Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition'.[2]

According to Higgins, 'By entrepreneurship is meant the function of seeing investment and production opportunity, organizing 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.'

In the opinion of A.H. Cole, former Professor of Business Economics, Emeritus, at Harvard University, 'Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or exaggerate profit by production or distribution of economic goods and services.'[3]

According to Schumpeter, 'Entrepreneurship is based on purposeful and systematic innovation. It included not only the independent businessman but also company directors and managers who actually carry out innovative functions'.[4]

In India, the definition of 'an entrepreneur as being the one who undertakes to organize, own and run a business' was accepted in 1975 at a national seminar on Entrepreneurship held in New Delhi.

1.3 CHARACTERISTICS OF AN ENTREPRENEUR

The basic characteristics of an entrepreneur are as follows:

Desire for responsibility: This is a fundamental characteristic of an entrepreneur who feels a deep sense of personal responsibility for the result of the projects that he starts. He prefers to have control over the resources, which he uses for achieving self-determined goals.

Preference for moderate risk: This means that entrepreneurs do not take wild risks; instead, they take calculated risks. In other words, successful entrepreneurs are not as much risk takers as they are risk eliminators, removing obstacles that come in the way of the successful launch of their ventures.

Confidence in their ability to succeed: The National Federation of Independent Businesses (NFIB) found that business owners rated the success of their companies as quite high – an average of 7.3 on a scale of 1 (*total failure*) to 10 (*extreme success*). This high level of optimism may explain why some of the most successful entrepreneurs have failed in business – often more than once – before finally succeeding. Hence, entrepreneurs are typically confident about succeeding.

High level of energy: Entrepreneurs are more energetic than the average person, which sometimes proves to be vital in launching a start-up company. That energy may be a critical factor given the incredible effort required to launch a start-up company. Hard work and long working hours are common, and the pace can be gruelling. For example, during the nascent phase of Infosys, Narayana Murthy and a few members of

[2] John K and Howard Stevenson (eds.), *Entrepreneurship … What it is and How to Teach it*. Division of Research, Harvard Business School, 1984.

[3] A.H. Cole, *Business Enterprise in its Social Setting*. Harvard University Press, Cambridge, 1959, p.44.

[4] J. A. Schumpeter, op.cit., 1949.

his team worked tirelessly to build a company that would fulfill all the software needs and wants of customers.

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Desire for immediate feedback: Most entrepreneurs feel a sense of pride in being entrepreneurs. They take pleasure in facing the challenges that go with the running of businesses and constantly invite feedback as they are eager to find out how they are performing. They use this feedback to overcome their negative points by working on them.

Future orientation: An entrepreneur has a definite sense of probing for opportunities. He looks beyond the present and concerns himself with considering what can be done in the future rather than brooding on what was done in the past. Not satisfied to sit back and revel in their success, real entrepreneurs stay focused on the future. An example would be 'home shopping' via television channels – a medium that the Indian audience is already familiar with. For some time now, Indian viewers have watched Asian Sky Shop being aired on different channels. However, what is new is the notion of a 24-hour channel that completely caters to home shopping. First on the block is HomeShop18, a Network 18 venture, which was launched in April 2008. Growing at a rate of 30 per cent per month, the company is targeting 'a run-rate breakeven' in the first year of its launch. With more channels wanting to grab a share in this market, one can expect more action in this area over the next 12 months – a clear indication of the growing retail space in India. In an interview with *Brand Line* Sundeep Malhotra, CEO, HomeShop18 said, 'Retail trends are changing drastically. However, for e-commerce to evolve in the consumer retail space, consumers at large have to be aware of the benefits of the medium.'

Skill at organizing: An entrepreneur knows how to bring together the right people for accomplishing a task. He effectively combines jobs and people and transforms his vision into reality.

Value of achievement over money: One of the most widely held misconceptions about entrepreneurship is that it is the desire for money that drives entrepreneurs. In fact, entrepreneurs are chiefly motivated by the urge to achieve something; money merely serves as a symbol of achievement – a means of 'keeping score' of the accomplishments.

Flexibility: Entrepreneurs are capable of adapting themselves to the varying demands of businesses and customers. Rigidity can lead to failure in today's swiftly altering global economy. For example, IBM's strategy of adopting e-mail advertising in early 1990 evinced a good response and increased its microprocessors business.

Tolerance for ambiguity: Entrepreneur expert Amar Bhide says that entrepreneurs exhibit 'a willingness to jump into things when it's hard to even imagine what the possible set of outcomes will be'. Entrepreneurs have a tendency to be highly tolerant to forever shifting, ambiguous circumstances, which is often the environment they frequently operate in. It is essential for them to be able to deal with uncertainty as these business builders have to continuously make decisions using new and at times even conflicting information gleaned from a variety of unknown sources.

High degree of commitment: Entrepreneurship is hard work, and launching an organization successfully requires total commitment from an entrepreneur. Business founders often immerse themselves completely in their companies. Most entrepreneurs have to overcome seemingly insurmountable barriers to launch an organization and to keep it growing. That requires commitment.

Check Your Progress

1. Who is an entrepreneur?
2. What is the difference between 'entrepreneur' and 'entrepreneurship'?
3. What are the basic characteristics of an entrepreneur?

1.4 FUNCTIONS OF AN ENTREPRENEUR

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An entrepreneur is expected to perform the following functions:

1. **Assumption of Risk**: The entrepreneur assumes all possible risks of business which emerge with changes in the tastes of consumers, techniques of production and new inventions. Such risks are not insurable and the entrepreneur has to bear the loss, if any. Thus, risk-assumption and risk-bearing remain the most important functions of an entrepreneur, which he tries to reduce with his initiative, knowledge and skill and good decisions.
2. **Business Decisions**: The entrepreneur has to decide the nature and type of business to undertake the nature and type of goods that must be produced or services that must be provided to customers. He enters the particular industry which offers him the best prospects and produces whatever commodities he thinks will pay him the most and employs those methods of production which seem to him to be the most profitable. He effects suitable changes in the size of the business, its location, techniques of production and does everything that is needed for the development of his business.
3. **Managerial Functions:** There are different types of managerial functions that an entrepreneur has to perform and these are based on the size and activities of an enterprise. The managerial functions include formulation of production plans, raising of finance, dealing with suppliers for procurement of raw materials and other materials, providing production facilities, organizing sales, and conducting and so on. Administrative functions such as manpower planning, selection, recruitment, etc.

Generally an entrepreneur performs many useful functions for the development of society and to satisfy the needs of fellow citizens. The entrepreneur can identify opportunities to start a business either as a manufacturer or as a distributor, for entrepreneurship exists in every field of economic endeavour. Manufacturing activities require a relatively high capital investment and more entrepreneurial abilities than distribution activities. An entrepreneur has strong motivation and desire to achieve success by undertaking a venture and bearing risk for earning profit.

1.5 TYPES OF ENTREPRENEURS

On the basis of his study of American agriculture, Clarence Danhof classified entrepreneurs in the following way:

1. Innovative entrepreneur
2. Adoptive or imitative entrepreneur
3. Fabian entrepreneur
4. Drone entrepreneur

1. Innovative Entrepreneur

An entrepreneur who is able to foresee potentially viable and profitable opportunities through innovation is considered an Innovative Entrepreneur. An innovative entrepreneur

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is highly motivated and talented and 'innovation' is his key function. According to Peter F. Drucker, 'an innovating entrepreneur is one who always searches for change, responds to it, and exploits it as an opportunity'. An entrepreneur creates new values or increases the value of what already exists.

An entrepreneur can exhibit his innovativeness in any of the following ways:

(a) By introducing a new product, a new quality, a new process or a new method for an existing product.

(b) By opening a new market, for example e-business.

(c) By discovering a new source for the supply of raw material or semi-finished goods.

(d) By reorganizing the enterprise so as to achieve monopoly or to break up an existing monopoly position.

2. Adoptive or Imitative Entrepreneur

An Imitative Entrepreneur does not innovate anything, but imitates techniques and technologies innovated by others. That means an imitative entrepreneur is one who is ready to adopt the successful innovations already inaugurated by innovating entrepreneurs. He simply follows the innovators after carefully observing how they fare and to what extent their innovation has caught the imagination of the society. This type of an entrepreneur plays a vital role in developing countries.

For example, Indian entrepreneurs are adopting the new technologies developed in Japan, France and Germany in various lines of products such as automobiles, electronics, and infrastructure.

3. Fabian Entrepreneur

This type of entrepreneur is one who is cautious in introducing any change in the business. Normally, he has neither the will to introduce new changes nor the desire to adopt new methods. He is ready to imitate only when it becomes perfectly clear that failure to do so would result in heavy loss for him. He is dominated more by customs, religion, traditions and past practices and he is not ready to take any risk at all.

4. Drone Entrepreneur

This type of entrepreneur is one who blindly follows the traditional methods of production even when it results in loss to him. He is not prepared to introduce any change in his method of production, which is already in place. He continues to carry out his business in the traditional way even when he suffers losses. Reasons of this attitude could be several, such as lack of funds, lack of understanding of new developments in his field of operations. For example, the coir industry in Kerala is dominated by drone entrepreneurs.

Cole has classified entrepreneurs as follows:

1. Empirical entrepreneur
2. Rational entrepreneur
3. Cognitive entrepreneur

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1. Empirical Entrepreneur

An empirical entrepreneur is similar to a drone entrepreneur. He is one who does not introduce anything revolutionary in his method of production or business. He simply follows the rule of thumb principle.

2. Rational Entrepreneur

He takes rational decisions by himself depending upon the situation. A rational entrepreneur is one who is ready to introduce even revolutionary changes on the basis of the general economic conditions prevailing in that area.

3. Cognitive Entrepreneur

He is one who takes the advice and services of experts and introduces changes. Since he acts on the advice of experts, he is called a cognitive entrepreneur.

1.6 INTRAPRENEURS

The term 'intrapreneur' was coined in United States of America in the late 70s. Many bright executives in major corporations started leaving their jobs because of their entrepreneurial urge and drive. They preferred to start their own enterprise as they wanted fascinating and lucrative jobs. Their success as entrepreneurs posed a threat to the corporation that they had left a few years ago. Gifford Pinchot defined the term intrapreneur with reference to 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 a way by which such executives could be retained in the industry and their entrepreneurial urge could also be satisfied by their bosses. A system was devised whereby such executives would operate as entrepreneurs with full independence and autonomy but within the organization. They were allowed to introduce new products, take their own decisions and put their ideas into practice. Such executives-turned-entrepreneurs were encouraged to survive in an organization. They were adequately sponsored and their entrepreneurial spark was kept alive. Their turnover was also reduced. Such people were called intrapreneurs.

Intrapreneurs, with their innovative and dedicated efforts, are perceived as valuable assets by the organizations. They serve as champions to others in the organization.

1.6.1 Difference between Entrepreneur and Intrapreneur

Entrepreneurs and intrapreneurs have the following differences:

1. An entrepreneur is an independent person who starts his venture and bears full risk of failure and enjoys the fruit of his success whereas intrapreneur is partially independent and is sponsored by the corporation in which he is working. He is also not liable to bear the losses in case of his failure.
2. An entrepreneur raises the finance from various sources and also guarantees their return, which means he is responsible for the amount of investment by the investors. An intrapreneur does not own responsibility to raise the capital or to return it.

3. An entrepreneur has no relation with any organization whereas an intrapreneur operates within the organization where he is working.

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1.7 QUALITIES OF AN ENTREPRENEUR

Essential qualities of entrepreneurs are as follows:

1. **Success and Achievement:** Entrepreneurs are determined to achieve high goals in business. This achievement motive gives them the strength to surmount obstacles, suppress anxieties, overcome misfortune and desire expedients to run a successful business.
2. **Risk Bearer:** Rather than gambling or avoiding risks, entrepreneurs take moderate strategic and financial risks.
3. **Opportunity Explorer:** An entrepreneur is always seeking new opportunities. He seizes opportunities and converts them into realistic achievable goals by adopting a constructive approach.
4. **Perseverance:** Entrepreneurs make extreme efforts and work hard till their goals are accomplished. They are undeterred by the uncertainties, risks and difficulties that come in the way of achievement of their goal. So obstacles do not stop an entrepreneur from reaching his goal.
5. **Facing Uncertainty**: Achievement-oriented people tend to tackle unfamiliar but interesting situations. They go ahead with solutions for the problems even without guidelines. With their analytical ability they investigate a situation and act accordingly.
6. **Feedback**: Entrepreneurs want prompt feedback of their performance so that they can correct themselves without delay.
7. **Independence:** Entrepreneurs like to be their own master and want to be responsible for their own decisions. An entrepreneur is a job giver and not a job seeker.
8. **Flexibility:** Entrepreneurs make decisions based on the prevailing situations. Successful entrepreneurs do not hesitate in revising their decisions. An entrepreneur is a person with an open mind and is not rigid in his ideas.
9. **Planner:** Entrepreneurs frame realistic business plans and follow them rigorously to achieve their objectives in a stipulated time limit.
10. **Self Confidence:** Entrepreneurs direct their abilities towards the accomplishment of goals with the help of their strengths.
11. **Motivator:** Entrepreneurs influence and initiate people and make them think in their way and act accordingly.
12. **Stress Taker:** Entrepreneurs take many decisions that may involve lot of physical and emotional stress. They keep their cool under a lot of tension while decision making.

Check Your Progress

4. List the functions of an entrepreneur.
5. What are the types of entrepreneurs?
6. Who is an intrapreneur?

1.8 GROWTH OF ENTREPRENEURSHIP IN INDIA

Entrepreneurial growth in any country must evolve within the context of the economic history of that particular country. The study of entrepreneurial growth in India has been divided into three sections, viz, entrepreneurial growth before 1850, from 1850 till Independence, and post Independence.

1.8.1 Entrepreneurial Growth Before 1850

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Indian industrial entrepreneurship can be traced back to as early as the Vedic period when metal handicrafts were produced. People were organized into an economic and social system, the unit of which was the agricultural village, which can be termed as village community. It consisted of farmers, artisans, Brahmins, weavers, carpenters, goldsmiths and others. Artisans were treated as village servants and there was absence of localization of industry. However, some kind of entrepreneurship existed among the artisans in cities on the banks of rivers, mostly because rivers provided transportation facilities. Indian artisanship was well recognized all over the world. For instance, *corahs* of Bengal, *dupattas* and *dhotis* of Ahmedabad, silk-bordered clothes of Nagpur, shawls of Kashmir, Amritsar and Ludhiana and brass, metal and copper wares of Benaras and Moradabad. Moreover this India was well-known for artistic industries like marble-work, stone-carving, jewellery, brass, copper and wood-carving, etc. Manufacturing entrepreneurship did not develop in India till 1850 due to weak communication and transportation systems. The Indian industry which was basically a cottage and small scale industry declined at the end of eighteenth century for the following reasons:

a. The disappearance of Indian princely courts which patronized the crafts. The artisans who manufactured specially designed articles for decoration of courts also suffered because of a decline in the demand for works of art.
b. Lack of communication and transportation facilities.
c. The establishment of an alien rule with the influx of many foreign influences.
d. The competition from a highly developed European industry.

Although entrepreneurial talent was in abundance amongst businessmen, India did not offer much scope for their development. It is evident from the fact that large numbers of traders and moneylenders migrated to various countries like Burma, Singapore and Kenya for the purpose of trading and had extensive trade with China and Hong Kong.

The reasons why entrepreneurship did not grow early in India can be explained by multiple factors:

i. Lack of capital created various problems for artisans. Since the moneylenders earned a lot of money as interest by exploiting the artisans they did not bother to take risks by entering into manufacturing entrepreneurship. So the artisans were dependent on the mercantile class for the supply of raw material, sales and financing.
ii. Lack of political unity
iii. Network of custom barriers
iv. Existence of innumerable systems of currency
v. Regional markets were plagued by arbitrary political authority in the seventeenth and eighteenth centuries
vi. Unfavourable taxation policies
vii. Low prestige of businessman

In spite of such a discouraging environment for entrepreneurship, the export trade of textiles in the seventeenth century was ascending. The European investment in India also changed the method of trading in India. In this period grouping of Indian merchants into joint-stock associations for the purpose of managing the supply of textiles to European countries was significant. Indian textile goods were in great demand and balance of trade was favourable.

The British entrepreneurs made pioneering efforts to export the modern factory system outside England. Up to 1850, the major economic and commercial development in India centered on the growth of the British private enterprise in banking, insurance, steamships, plantations and coal mines.

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1.8.2 Entrepreneurial Growth After 1850

The railways were introduced in India in 1853. They successfully transformed the Indian economy The Indian mercantile class, along with the Europeans, took advantage of the rapidly expanding trade and got engaged in highly lucrative trading. In the middle of the nineteenth century, the British considered exploiting the natural resources of India to their advantage. To penetrate the Indian territory, they undertook the building of certain infrastructure such as roads and railways.

The 'Swadeshi' campaign which began in 1905 emphasized the use of indigenous goods. It was an important expression of nationalism and inculcated and developed a feeling of pride in Indians. Jameshedjee Tata also named his first mill Swadeshi Mills. The purpose of the Swadeshi movement was to encourage the Indian industries and to promote their interest.

The British had shattered the economy of India, and their goods had driven the indigenous goods out of competition. Raw materials from India were sent to England to be used by British industrialists and manufacturers. As a result, Indian craftsmen were rendered jobless and idle. The chief aim of Swadeshi movement was to promote Indian industries and to provide employment to craftsmen along with popularizing Indian goods and boycotting foreign goods. The Swadeshi movement hit the British trade and industry adversely and gave a new life to manufacturing entrepreneurship particularly to the cottage industry, e.g., handloom cloth, handicraft, soap and textiles.

Up to 1915, Parsis in India had taken the initiative to expand the textile industries. Later, they were attracted to other fields, mainly iron and steel. Jamshedjee Tata was a Parsi entrepreneur who established the first steel plant in Jamshedpur in 1911.

Indian merchants mainly invested in cotton textile mills because:

1. Cotton textiles were largely controlled by the Indians even till the First World War.
2. There was competitive advantage in the manufacture of coarser varieties of textiles which did not require any protection.
3. The necessary technology could easily be imported.
4. Requirement of skilled labour was less and unskilled labour was already available in abundance.

After World War I, the Government of India agreed to provide 'discriminating' protection to certain industries, even requiring that companies receiving its benefits be registered in India with rupee capital and have a proportion of their directors as Indians. These measures helped in establishing and extending the factory system in India in the first four decades of the twentieth century. Share of foreign-controlled enterprises fell in such industries as coal, tea, sugar, and cement. From 1911 to 1921, the number of tea gardens run by foreign public enterprise in Bengal fell from 66 to 54 per cent of the total and the share of coal production in that province fell from over four-fifth to two-third between 1904 and 1920. British capital in industries like tea plantations, coal mines, banking, insurance and steamships increased up till World War I. The Partnership Act of 1932 provided an opportunity to build a managing agency system that established partnerships among companies that were formed by groups of individuals with strong financial resources and business expertise. Among the pioneering managing agents were famous business houses such as Andrew Yule and Co., Martin Burns, Bird and Co., and Duncan Brothers. The managing agents supplied finance to set up jute mills and tea plantations when India did not have a developed banking system. Dwarkanath Tagore, who encouraged joint-stock companies, invented a distinct method of management in which management remained in the hands of a 'firm' rather than with 'individuals'.

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East India Company's arrival in India was the hidden consequence of manufacturing entrepreneurship. In 1854, C. Davar established a cotton textile manufacturing unit in Bombay. In 1858, there were four cotton textiles mills in India and within a period of 25 years, their number had increased to 58. By the last quarter of nineteenth century, there were 51 cotton mills and 18 jute mills.

The British developed India in many ways but it is not correct to argue that they showed a spirit of adventure; they developed the railways, tea and coffee plantations and made huge investments in jute industry. These efforts were undertaken by them only when they felt attracted by high profits available in these areas. The British policies were meant to protect their own industries and commercial interests.

1.8.3 Entrepreneurial Growth in Post-Independence Era

The post-Independence era witnessed industrial development, innovations by individuals or corporations relating to a product, organization or market; rise and mobility of certain castes or communities in relation to business activities; and entry of venture capital in an altogether new line. It may also be construed as a period which saw slow or creeping change in the traditional structure of agriculture, such as growth of commercial crops by using modern techniques of cultivation.

After Independence, the Indian Government framed an industrial policy to set up production and combat inflationary tendencies. This was to ensure economic security, which was vital for industrial growth and also to create a stimulating climate for investment in industry. The First Industrial Policy of 1948 recommended a mixed economic system which would ensure proper distribution of economic power between the private and public sectors, encourage the tempo of industrialization by spreading entrepreneurship from existing centres to other cities, towns and villages, and spread the entrepreneurial spirit which was concentrated in a few dominant communities to a large number of people of varied social strata. The Industrial Financial Corporation of India (IFCI) was set up in 1948 to develop industry.

During the periods of the First and Second Five-Year Plans, major proposals for establishing basic industries were formulated under the government sector. In the Second Five-Year Plan, production of heavy electrical and heavy machine tool industries, heavy machine building and production of machinery for cement and paper industries began for the first time in the country. Good progress was also recorded in modernization and re-equipment of modern industries such as jute, cotton, textiles, and sugar. New industrial items such as industrial boilers, milling machines, tractors, motor cycles and scooters were produced in large quantities. New industrial townships and industrial regions came up. In the field of small and village industries, about 60 industrial estates comprising 1,000 small factories were set up. This period also saw the rise of a vigorous class of small entrepreneurs. This is how a socio-economic framework was established and the environment considerably influenced the growth of entrepreneurship in the country.

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The Third Five-Year Plan created favourable conditions for industrial investment and growth was also significant. Industries like automobiles, textile machinery, diesel engine, petroleum products and cement developed as per the target. During the Plan period, mining and extractive industries showed considerable progress. A fairly sound base for future industrial growth was laid with the completion of projects of Heavy Engineering Corporation (HEC) for manufacture of machinery and equipment for steel plants, and Bharat Heavy Electricals Limited (BHEL) for power generation and transmission equipment. In this plan period the government offered various incentives and concessions in the form of capital, technical know-how, markets and land to prospective entrepreneurs to establish industries in different areas and remove regional imbalances in the development process. Several institutions like Directorate of Industries (DICs), Financial Corporations, Small Scale Industries Corporations (SSICs) and Small Industries Service Institutes (SISIs) were established by the government to facilitate new entrepreneurs in setting up their enterprises. Expectedly, the small scale units emerged rapidly in India, registering a tremendous increase in their numbers from 1,21,619 in 1966 to 1,90,727 in 1970. There was an increase of about 17,000 units per year during this period.

The Fourth Five-Year Plan aimed at increasing the existing capacities to the level required for present or future development, to build new basis for industries, to limit the imports to a manageable proportion, to maintain a sustained increase of exports by 7 per cent per year as strategy to attain self-reliance, and to achieve a growth rate of 8 per cent. However, the performance was much short of set targets. Lack of integrated planning and deficiencies in implementation gave a setback to core industries like steel and fertilizers. Failure to begin production of steel and non-ferrous metals had an adverse effect on engineering industries. Stagnation in industries such as sugar, textiles, and fluctuation in agricultural output constrained rapid growth. Shortage of power and coal created additional impediments.

The Fifth Five-Year Plan had the objective of self reliance and growth with social justice. It was intended to rapidly diversify the industry and reserve certain items for the development of small industry. During this period, there was considerable progress in industries like steel, aluminum, engineering goods, fertilizers and petroleum products. Equally impressive was the progress in metallurgical industries, chemicals and allied industries. Economic and social changes were occurring so rapidly in the country that even the most conservative families started feeling that their next generation would not survive in business without appropriate training and education.

The Sixth Five-Year Plan was intended to strengthen the impulses of modernization, especially development of indigenous sources of energy, and reduction in regional inequalities. Technological advancements in fields of computers, electronics, and fuel efficient motor vehicles took place during this period. Village and small scale industries were given importance and a tremendous increase in their production was noted.

The Seventh Five-Year Plan revealed considerable achievement in the area of village and small scale industries. The handicrafts sector touched a high level in exports. Achievement in fields of man-made fibre, nitrogenous fertilizers and machine tools was commendable and went beyond the targeted level fixed for the plan. In this plan period, the Government of India announced the Small Scale Industrial Policy, 1991. The primary focus of this policy lay in imparting a growth-impetus and vitality to the small scale sector so that it could contribute to economic growth. The scope of the National Equity Fund Scheme was also widened and the Single Window Loan Scheme was extended for covering projects up to Rs 20 lakh with working capital margin up to Rs10 lakh. It was decided that composite loans under the Single Window Scheme would be channelized through commercial banks. The scheme was available only through SFCs and SSIDCs. A large number of Entrepreneur Development Programmes (EDPs) were planned to support first generation entrepreneurs by providing them with training in different areas of enterprise operations.

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The Eighth Five-Year Plan emphasized that small scale industry would be freed from innumerable rules, regulations and bureaucratic controls. This plan recognized the problem of small scale units in technological obsolescence and weak marketing power and remedial measures were proposed. In July 1993, Reserve Bank of India (RBI) announced a package of measures to ensure adequate and timely credit to the SSI sector. It stated that the banks should adopt the Single Window Clearance Scheme of SIDBI for meeting the credit requirements of small scale units.

The Ninth Five-Year Plan reserved 821 items for small sector. The Government took measures to increase the flow of credit by setting up specialized branches of banks exclusively for providing credit to Small Scale Industry (SSI). The SIDBI set up a Technical Development and Modernization Fund to improve technology. Infrastructure facilities were developed and various tool rooms were set up in different cities to give training and technological support to SSIs. Exports showed an increase and recorded an annual growth rate of 14.7 per cent contributed mainly by SSIs and handicrafts. Thus, the Government realized the need to further develop this sector by giving help, protection and encouragement to small scale units.

The Tenth Five-Year Plan laid emphasis on a high rate of development in the field of science and technology, which in turn helped in the development of the manufacturing sector. The fact that the economy grew robustly and the manufacturing sector's performance improved aided in maintaining the revenue receipts, especially tax revenues, buoyant through the entire period of the Tenth Five-Year Plan. Robust economic growth and improved performance of the manufacturing sector helped to maintain the revenue receipts, particularly the tax revenues, buoyant throughout the whole period of the Tenth Five-Year Plan. The Central Government witnessed an average annual growth of 14.9 per cent in revenue receipts between 2002–03 and 2006–07 (BE).

The present plan, i.e. the Eleventh Five-Year Plan (2007–2012), has given preference to the development of Micro, Small and Medium Enterprises (MSMEs). In the National Awards to MSMEs on 30 August 2008, the Prime Minister, Dr Manmohan Singh said, 'MSMEs have a very important role to play in ensuring that processes of economic growth in our country are inclusive, employment-friendly and they contribute to greater regional balance in levels of development. The positive contribution that this sector makes to employment is of utmost importance to our vision of shared and equitable growth. This sector provides employment to over 42 million people. It contributes about 45 per cent of the total manufacturing output and nearly 40 per cent of India's exports. The Risk Capital Fund of Rs 2000 crore with Small Industries Development Bank of India announced in the budget of 2008–09 will facilitate flow of enhanced equity support and venture capital to MSMEs. I would urge MSME units to take full advantage of these many initiatives of the government. Education and skill development can be India's global opportunity. Our government has made education the core of the Eleventh Five-Year Plan. In our National Action for Skill Development, we would like to set for the country the ambitious goal of 500 million trained people by 2020 in keeping with Smt. Sonia Gandhi's vision of *Rozgar Badhao*.'

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During the post-Independence era, the Government has provided stimulation for the growth of private sector, both small scale and large scale. Diversification of industry, generation of employment potential, policy of import substitution and export promotion, and use of new and advanced technologies have significantly changed the nature of Indian entrepreneurship and brought in new techniques of modern management. During this period, the existing large business houses have taken advantage of the extremely favourable atmosphere and diversified widely. A large number of established entrepreneurs have stepped into disparate industries to the extent that the textile mills have marched into the area of electronics. Family-held entrepreneur groups like Tata, Birla, Dalmia, Kirloskar and Bajaj have expanded their businesses. The Government has established various entrepreneurship development institutes and strengthened the role that entrepreneurship plays in economic development.

1.9 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

To understand the role of entrepreneurship in economic development we should first know the key elements of entrepreneurship.

Entrepreneurship refers to the functions performed by an entrepreneur in establishing an enterprise. Just as management refers to what managers do, entrepreneurship may be regarded as what entrepreneurs do. In other words, entrepreneurship is the act of being an entrepreneur. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise. It is, thus, the process of giving birth to a new enterprise.

Entrepreneurship may be defined in various ways, but its key elements are:

1) Innovation
2) Risk-bearing
3) Economic Organization
4) Vision
5) Organizing Skills

All the elements are inter-related and form a continuous process in business. These elements have a great influence on entrepreneurship development, which in turn leads to economic growth of any nation. Let us understand what these terms actually mean.

1. Innovation

Doing something new or something different is a necessary condition for a person to be called an entrepreneur. Entrepreneurs are constantly on the lookout to do something different and unique to meet the changing requirements of the customers. They may or may not be inventors of new products or new methods of production, but they can foresee the possibility of making use of the inventions in their enterprises. These days we learn of so many innovative ideas and actions of entrepreneurs to meet their customers' expectations and to get unique identity in the market. Let us examine some of them.

Check Your Progress

7. Who were the members of the village committee before 1850?
8. Why had Indian merchants mainly made investments in cotton textile mills?
9. After Independence, what measures did the Government take to boost entrepreneurship?

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In order to satisfy the changing preferences and needs of customers, fruit juice is sold in small cartons instead of bottles so that customers can throw away the container after drinking the juice. Lipton offers its tea in small packs known as '*pudiyas*' to meet the requirements of its rural customers.[5] The passenger car Nano is a recent innovation by Tata. Tata wants to produce a car which is affordable for the middle class and thus does not want the price to exceed Rs 1 lakh. Innovations are taking place in service sector to provide effective and efficient service to enrich customer loyalty by using information technology and Internet. Since customers' tastes and preferences keep on changing, the entrepreneur needs to come up with new inventions on a continuous basis to meet these changing demands for products.

2. Risk-bearing

Establishing a new enterprise and trying to do something new and varied involves different risks, especially financial risks. The enterprise may earn profits or incur losses because of various factors like increasing competition, changes in customer preferences, and shortage of raw material and so on. An entrepreneur, therefore, needs to be bold enough to assume the risk involved in the enterprise. In fact, he needs to be a risk-taker, not a risk avoider. His risk-bearing ability enables him to persist even if he meets with failure in the initial period. It is this quality which ultimately helps him succeed. The Japanese proverb applies to him: 'Fall seven times, stand up eight.'

3. Economic Organization

The term *economic organization* refers to an organization that allocates scarce resources. It can be a firm, a business unit within a firm, a network of independent organizations, or a not-for-profit organization (NPO). In what may seem paradoxical to many, even governments can create entrepreneurial organizations under the right conditions. The business organization can, of course, pursue gain and growth as its motivations. In fact, some firms use both profit and size as their main objectives. Other businesses do not seek growth, which distinguishes entrepreneurial firms from small businesses. Do NPOs seek gain and growth? Yes, they do. Although NPOs may be prohibited by law from making profits for stockholders, they are allowed to accumulate surpluses in their accounts. NPOs certainly seek growth: More members, more services performed, more clients served – the list is endless.

4. Vision

Vision encompasses the relentless pursuit for operational excellence, innovative technology and being responsive to the needs of the market place. It is based on the promoter or entrepreneur's picture of the organization in the years to come.

5. Organizing Skills

As Jan Tinbergen points out, 'The best entrepreneur in any developing country is not necessarily the man who uses much capital, but rather the man who knows how to organize the employment and training of his employees. Whoever concentrates on this is rendering a much more important service to his country than the man who uses huge capital'.

[5] S.S. Khanka, 'Marketing of Small Industry Products', *Prabandh*, Vol.17, No.63, July–September, 1996, pp. 20–24.

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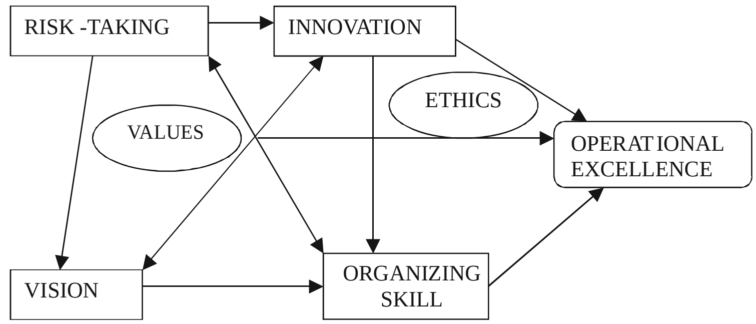

Fig. 1.1 *Conceptual Model of Entrepreneurship – Based on Key Elements of Entrepreneurship for Economic Development*

Joseph A.Schumpeter, Francis A. Walker and Peter Drucker have focused on the role of Entrepreneurship in economic development.

1.9.1 Views of Schumpeter on Entrepreneurship Development

Joseph A. Schumpeter (1883–1950) emphasized the role of innovation (entrepreneur). According to him, an entrepreneur was someone who carried out 'new combinations' such as the introduction of novel processes or products, the identification of novel sources of supply or export markets, the creation of novel types of organizations, and so on. A heroic vision of an entrepreneur as motivated by the 'joy of creation', 'the impulse to fight and prove oneself superior to others', 'will to conquer' and the 'dream and the will to found a private kingdom' was presented by Schumpeter.

In his view, entrepreneurs lead the way in the creation of novel industries, so that significant structural alterations are precipitated by them in the economy. The process of what is known as 'creative destruction' renders the old industries obsolete. As the competition between the already established and the new industries for investment goods, material, labour, etc. increases, the prices of these resources too rise. It is not possible for the old industries to pass on their increased costs as customers can switch over to newer products. With the old industries declining, newer ones can engage in expansion as imitators who are optimistic of earning good profits (on the basis of the initial success enjoyed by the innovator) continue their investment. Ultimately, the profit declines due to overcapacity and the investment also gets halted, along with the economy going into depression and stopping innovation altogether. However, invention continues and ultimately leads to there being adequate stock of unexploited inventions for encouraging the more spirited entrepreneurs to re-commence innovation. This was how Schumpeter made use of entrepreneurship for explaining business cycles, economic growth and structural changes, by combining psychological and economic notions.

An important matter of concern for Schumpeter was the 'high-level' kind of entrepreneurship that was historically responsible for giving rise to the multidivisional firm, commercially exploiting colonies, giving rise to the chemical industry, creating railroads, etc. There was little room in his analysis for the more common and equally significant 'low-level' entrepreneurship that the smaller firms engaged in. Israel M. Kirzner and Friedrich A. Hayek explain the essence of this low-level activity (the Austrian approach). In market economies, it is the entrepreneurs who provide the price information. Unlike bureaucrats in socialist economies who do not have any incentive for discovering the price for themselves, profit opportunities motivate the entrepreneurs in market economies to do so. Price quotations are provided by entrepreneurs to others as an invitation for trading with them. Profits are expected to be earned by means of cheap buying and dear selling. In the long term, price differentials are arbitraged away by the competition among the entrepreneurs; however, profits are generated for the arbitrageurs in the short term, once such differentials are discovered.

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One problem with the Austrian approach is that the entrepreneur is isolated from the firm. It is more fitting for individual dealers or speculators than small manufacturers or retailers.

In the case of a developing economy like India, the concept is understood differently. An entrepreneur in a developing economy is one who starts an industry, undertakes risks, bears uncertainties and also performs the managerial functions of decision-making and co-ordination. He also puts the new process based on technological research into operation. As unlike in the developed industrial world, in developing countries, the emphasis is not (nor is there any need for it) only on 'Schumpeterian innovations'.

Schumpeter's 'entrepreneur' only exists if the factors of production are combined for the first time. To him, maintenance of a combination is not entrepreneurial activity. As such, he differs from the Theory of Rent enunciated by Ricardo, in which he included the term 'entrepreneurial ability' as an independent factor of production. To Ricardo, profit is the reward for entrepreneurial ability.

1.9.2 Views of Walker on Entrepreneurship Development

According to Francis A. Walker, the true entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the various other factors of production. He is a pioneer, a captain of industry. The supply of such entrepreneurship is however quite limited and enterprise in general consists of several grades of organizational skill and capability. The more efficient entrepreneurs receive a reward over and above the managerial wages and this sum constitutes true profit ascribable to superior talent.

An 'entrepreneur' has been defined as someone who can detect and evaluate new situations in his environment and direct the adjustments that he thinks must necessarily be made in the economic system. He envisages an industrial venture for the same and exhibits significant determination, grit and initiative in the execution of this project, and performs one or more of the following in the process:

(a) Supplies technical know-how

(b) Promises to make up the shortfalls in capital

(c) Offers personal guarantees to financial institutions

(d) Arranges initial capital

(e) Obtains the necessary industrial licenses

(f) Explores the prospects of starting a manufacturing enterprise

(g) Perceives opportunities for profitable investments

1.9.3 Views of Drucker on Entrepreneurship

According to Peter Drucker (1970), entrepreneurship deals with risk-taking. The behaviour of the entrepreneur is reflective of the type of individual prepared to stake his

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or her financial security as well as career in the name of an idea, and spend a lot of capital and time on uncertain ventures. Uncertainties have been classified by Drucker as follows: .

- Risk that can be statistically measured (e.g., the probability that a blue pen will be drawn from a box which contains five blue and five black pens).
- Ambiguity, or that which cannot be easily measured in statistical terms (e.g., the probability that a blue pen will be drawn from a box which contains five blue pens, but an unknown number of black pens).
- True Uncertainty or Knightian Uncertainty, which cannot be estimated or statistically predicted (e.g., the probability that a blue pen will be drawn from a box which contains an unknown number of blue pens and other coloured pens).

Drucker has also aptly observed that 'Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation.'

Systematic innovation, according to him, has to do with searching for changes in an organized and purposeful manner and systematically analysing the opportunities offered by such changes in terms of social and economic innovation. This in turn leads to economic development.

According to Drucker, three conditions have to be fulfilled for an innovation to be successful. These are as follows:

1. Innovation at work. It requires knowledge and ingenuity. It makes great demands on diligence, persistence and commitment.
2. Innovators need to build on their own strengths in order to succeed.
3. It is necessary for innovation to be close to the market, focused on the market, and indeed market-driven.

Specifically, systematic innovation refers to six sources being monitored for innovative opportunities. Of these, the first three are contained within the enterprise itself, be it the service sector, an industry, a public service institution or a business enterprise. They are therefore visible primarily to people within that industry or service sector. These sources are basically symptoms. Nevertheless, they prove to be very reliable in indicating the alterations that have taken place or that can be made to take place without too much effort. These source areas are as follows:

1. Industrial or market structure innovation that is likely to catch the other unawares.
2. The incongruity – between actual and assumed (or what 'ought to be') reality.
3. The unexpected – unexpected outside events and unexpected success and failures.
4. The second set of three sources for innovative opportunity has to do with alterations that are external to the industry or enterprise:
   - New knowledge, both non-scientific and scientific
   - Shifts in meaning, mood and perception
   - Demographics (population changes)

1.10 WOMEN ENTREPRENEURS IN INDIA

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Women entrepreneurship is a relatively recent phenomenon which came into prominence in the late 1970s. Favourable government policies towards the development of women, enhanced ratio of educated women, entrepreneurship awareness, and new opportunities are the reasons why more and more women are venturing as entrepreneurs in all kinds of businesses, economic and other useful activities.

Women entrepreneurship in India has come a long way from *papad*-and pickle-making to making forays into engineering and electronics. Nowadays elite women in cities are making a mark in non-conventional fields such as consultancy, garment exports, interior designing, textile printing, food processing, chemicals, pharmaceuticals, etc.

There were 3 lakh women entrepreneurs in India constituting 11.2 per cent of the total entrepreneurs in 1995–96. Nearly 8 per cent of small-scale industries are run exclusively by women entrepreneurs.

Women entrepreneurs in India can be classified into the following three categories:

1. Women who reside in cities generally have adequate education and professional qualifications. Such women can become entrepreneurs, and are able to engage in medium and large industrial units and non-traditional establishments. This type of entrepreneurs are not confined to commercial activities but venture into fields such as electronics, engineering and services. This type of entrepreneur has the determination, drive, creativity and innovativeness for taking on the challenging role of entrepreneurship.
2. The second category consists of middle–class women who have the education but lack training. These women have become entrepreneurs due to the pull and push of traditional and changing values. They are mostly engaged in handicrafts and cottage industries and produce low value added items such as knitted garments, garments, doll and toy making, etc.
3. The next and last category of women entrepreneurs are those who take up business enterprise to tide over financial difficulties when responsibility is thrust upon them due to family circumstances. This group of women entrepreneurs is illiterate, financially weak and is engaged mostly in family business such as horticulture, fisheries, nursery, handlooms, etc.

1.10.1 Support and Financial Assistance to Women Entrepreneurs in India

A number of institutions and agencies have been set up to develop entrepreneurship in women in India for purposes of training and giving financial and marketing assistance. Public sector banks and state financial corporations provide loans to women entrepreneurs. Schemes such as Self-employment for Educated Unemployed Youth and Mahila Gramodyog are implemented to develop women entrepreneurs. Assistance under the District Rural Development Agency is provided to women entrepreneurs. Under the Jawahar Rozgar Yojana Scheme, 75 per cent of the funds are provided by banks and 25 per cent by the Women's Finance Corporation, out of which 20 per cent is provided as subsidy to women entrepreneurs. The Mahila Udyog Nidhi Scheme was introduced by

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10. What are the key elements of entrepreneurship?
11. What is Schumpeter's view of entrepreneurship in economic development?
12. What is Walker's view on entrepreneurship in economic development?

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IDBI to provide equity assistance to set up new industrial projects by women. Under the Prime Minister's Integrated Urban Poverty Eradication programme, the Women's Finance Corporation provided financial assistance to set up units for less than Rs 10 lakh. Self-help Groups set up by women in villages are financed by commercial banks. The Self-help Group is a group of rural poor with a homogenous background and interest, who voluntarily come together with intent to carry out savings and credit operations and other economic activities for mutual benefit.

Shri Shaki Package is a scheme run by State Bank of India to provide special training and concessions to women entrepreneurs. Training of Rural Youth in self employment, Action Plan and several other schemes provide financial support, technical assistance and guidance to women entrepreneurs.

The Government of India has organized a number of workshops on Trade-Related Entrepreneurship Assistance and development for the benefit of women entrepreneurs. The government seeks to empower women in rural and semi-urban areas through development of entrepreneurial skills, elimination of various constraints faced by them and by strengthening the trade support network.

The Federation of Societies of Women Entrepreneurs is engaged in promoting women entrepreneurship by:

(a) Providing marketing assistance to market their products,
(b) Providing effective interaction with government officers, and
(c) Evolving suitable guidelines from time to time for the promotion of entrepreneurship among women.

The National Research Development Corporation has set up a number of technology demonstration-cum-training centres to provide expertise and resources to women entrepreneurs in respect of new technology.

The National Alliance of Young Entrepreneurs, National Institute for Entrepreneurship and Small Business Development, National Institute of Small Business Extension Training, and Small Industries Development Bank of India are the other agencies rendering assistance to women entrepreneurs.

In the New Industrial Policy of 1991, the government stressed the need for conducting special entrepreneurship programmes for women with a view to develop women entrepreneurship. The policy has recommended that product and process oriented courses may be conducted to enable women to start small-scale industries.

One lakh women entrepreneurs were trained in trade-related activities under the initiation of the Ministry of Small Scale Industry. Six project lines including food, forest produce collection, leather, readymade garments and coins have been selected which would focus on women entrepreneurs. Thus, the climate is ideal for women in India to become entrepreneurs.

Check Your Progress

13. What is Drucker's view on entrepreneurship in economic development?
14. What are the agencies that support women entrepreneurs to get financial assistance?

1.10.2 Problems faced by Women Entrepreneurs

The problems faced by women entrepreneurs in India are immense and complex. They face more serious problems than men entrepreneurs. Some of these are as follows:

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1. **No Independence:** Women in India lack the basic ingredients that are needed for a successful entrepreneur such as independence and authority. They are considered subordinate to men in all walks of life.
2. **Low rate of Literacy:** Low literacy levels hinder women in carrying out their activities as entrepreneurs. Lack of education is a handicap in their understanding of technological and marketing issues.
3. **Social Attitude:** Overbearing presence of elders restricts young girls from venturing out and very strict boundaries are drawn around their mobility, keeping women away from training and acquiring skills in rural areas.
4. **Low Risk-bearing Capacity:** The psychological state of women does not allow them to bear high risks, which is a crucial factor and unavoidable in running an enterprise.
5. **Financial Constraints:** Finance in an enterprise that is run by women still remains a challenge, because of their inability to provide tangible security. Very few women have property in their name. Banks also take a negative attitude while providing finance to women entrepreneurs. As a result they rely on their own funds and loans from family and friends, which is not sufficient to manage the enterprise.
6. **Multiple Responsibilities:** A woman has to perform her responsibilities towards her family, organization and society. Consequently a serious conflict emerges between home and work, resulting in high stress levels that inhibit her success, independence and progress.
7. **Marketing Problems:** Marketing is a serious problem encountered by women entrepreneurs because of intense competition, lack of storage facilities, and failure to synchronize their products with market requirements.
8. **Limited Mobility:** Women entrepreneurs are often hindered by their inability to travel from one place to another for business reasons. Further, the humiliating attitude of government officials, such as licensing authorities, labour officers, sales tax officials, etc. makes life miserable for women and forces them to leave the business in certain cases.

1.11 SUMMARY

John K. and Howard Stevenson have defined entrepreneurship as ‘the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition’. The key elements of entrepreneurship are (i) Innovation, (ii) Risk-bearing, (ii) Economic organization, (iv) Vision and (v) Organizing skills. All the elements are inter-related and form a continuous process in business. In Schumpeter’s view, entrepreneurs lead the way in the creation of novel industries, so that significant structural alterations are precipitated by them in the economy. He emphasized the role played by innovation in this. According to Francis A. Walker, the true entrepreneur is one who is endowed with more than average capabilities in the task of organizing and coordinating the various factors of production. Drucker has also aptly observed that innovation is the specific tool of entrepreneurs, the means by which they can exploit changes as an opportunity for a different business or a different service. Gifford Pinchot defined the term intrapreneurs with reference to persons who resigned from their well-paid executive positions to launch

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their own ventures. He devised a system whereby such executives could operate as entrepreneurs with full independence and autonomy but within the organization. They were allowed to introduce new products, take their own decisions and put their ideas into practice. Such executives-turned-entrepreneurs were encouraged to survive in an organization. They were adequately sponsored and their entrepreneurial spark was kept alive. Their turnover was also reduced. Such people were called intrapreneurs. Entrepreneurs should possess certain characteristics to lead an organization.

There are four types of entrepreneurs. Of these, it is the Adoptive or Imitative Entrepreneur who is playing a vital role in developing countries like India. The basic functions of an entrepreneur are assumption of risk, business decisions and managerial functions such as formulation of production plans, raising of finance, dealing with suppliers in the procurement of raw materials and other materials, providing production facilities, sales organization, administrative functions such as manpower planning, selection, recruitment, etc.

Women entrepreneurship in India has come a long way from *papad*-and pickle-making to engineering and electronics. Nowadays elite women in cities are making a mark in non-conventional fields such as consultancy, garment exporting, interior designing, textile, printing food processing, chemicals, pharmaceuticals, etc. There has been remarkable growth in entrepreneurship after Independence. The Government of India from time to time adopts industrial policies to give a boost to industries in the large, medium, small, tiny and khadi and village sectors. Nationalization of banks and incorporation of various financial institutions has further provided financial assistance to entrepreneurship.

1.12 KEY TERMS

- **Entrepreneurship:** A process that an entrepreneur undertakes for augmenting his business interests.
- **Intrapreneurs:** Executives who operate as entrepreneurs with full independence and autonomy but within an organization.

1.13 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The person who invests his resources to perform an economic activity is called an entrepreneur. In India, the definition of an entrepreneur as 'being the one who undertakes to organize, own and run a business' was accepted at a national seminar on Entrepreneurship organized in New Delhi in 1975.
2. The term 'entrepreneur' is often used interchangeably with 'entrepreneurship'. But conceptually they are different: An entrepreneur is a creator whereas entrepreneurship is the creation.
3. The basic characteristics of an entrepreneur are a high degree of commitment, tolerance for ambiguity, flexibility, value of achievement over money, skill at organizing, future orientation, high level of energy, desire for immediate feedback, confidence in his ability to succeed, preference for moderate risk and desire for responsibility.

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4. The functions of an entrepreneur are as follows:
   (a) Assumption of risk
   (b) Business decisions
   (c) Managerial functions
5. Types of entrepreneurs are as follows:
   (a) Innovative Entrepreneur
   (b) Adoptive or Imitative Entrepreneur
   (c) Fabian Entrepreneur
   (d) Drone Entrepreneur
6. Intrapreneurs are executives who operate as entrepreneurs with full independence and autonomy but within the organization, and who are allowed to introduce new products, take their own decisions and put their ideas into practice.
7. Village community consisted of farmers, artisans, Brahmins, weavers, carpenters, goldsmiths etc. The artisans were treated as village servants and there was absence of localization of industry in India.
8. Indian merchants had mainly made investments in cotton textile mills because cotton textile was largely controlled by the Indians even till the First World War.

   There was competitive advantage in the manufacture of coarser varieties of textiles, which did not require any protection. Necessary technology could easily be imported.

   Requirement of skilled labour was less and of unskilled labour was more, which was already available in abundance.
9. In the post-Independence era, the Government has given plenty of stimulation for the growth of private sector, both small scale and large scale. Diversification of industry, generation of employment potential, policy of import substitution and export promotion, and the use of new and advanced technology have significantly changed the nature of Indian entrepreneurship and brought into existence new techniques of modern management. During this period the existing large business houses have taken advantage of the extremely favourable atmosphere and diversified widely. A large number of established entrepreneurs have ventured into disparate industries to the extent that the textile mills have marched into the area of electronics.
10. Key elements of entrepreneurship are as follows:
    (a) Innovation
    (b) Risk-bearing
    (c) Economic Organization
    (d) Vision
    (e) Organizing skills
11. In Schumpeter's view, entrepreneurs lead the way in the creation of novel industries, so that significant structural alterations are precipitated by them in the economy. Schumpeter made use of entrepreneurship for explaining business cycles, economic growth and structural changes, by combining psychological and economic notions. An important matter of concern for Schumpeter was the 'high-level' kind of entrepreneurship that was historically responsible for giving rise to the multidivisional firm, commercially exploiting colonies, giving rise to the chemical industry, creating railroads, etc. There was little room in his analysis for the more common and equally significant 'low-level' entrepreneurship that the smaller firms engaged in.

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12. According to Walker an 'entrepreneur' is as someone who can detect and evaluate new situations in his environment and direct the adjustments that he thinks must necessarily be made in the economic system. He envisages an industrial venture for the same and exhibits significant determination, grit and initiative in the execution of this project, and performs one or more of the following in the process: a) Supplies technical know-how; b) Promises to make up the shortfalls in capital; c) Offers personal guarantees to financial institutions; d) Arranges initial capital; e) Obtains the necessary industrial licenses; f) Explores the prospects of starting such a manufacturing enterprise; and g) Perceives opportunities for profitable investments.
13. Systematic innovation, according to Drucker, has to do with searching for changes in an organized and purposeful manner and systematically analysing the opportunities offered by such changes in terms of social and economic innovation. This in turn leads to economic development.
14. A number of institutions / agencies have been set up to develop entrepreneurship in women in India by providing them with training and giving financial and marketing assistance. The public sector banks and state financial corporations provide loans to women entrepreneurs. Schemes such as Self-employment for Educated Unemployed Youth and Mahila Gramodyog are being implemented to develop women entrepreneurs. Assistance under the District Rural Development Agency is provided to women entrepreneurs.

1.14 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define the term entrepreneur.
2. Who is an intrapreneur?
3. Distinguish between the Fabian entrepreneur and Drone entrepreneur.
4. Who is an Adoptive or Imitative entrepreneur?
5. Who is a Cognitive entrepreneur?
6. Name the qualities that are required in an entrepreneur.

Long-Answer Questions

1. What is the concept of entrepreneurship. Explain the characteristics and functions of an entrepreneur.
2. Describe the growth of entrepreneurship in India.
3. Describe the role of entrepreneurship in economic development.
4. What are the problems of women entrepreneurs? What are the support and financial assistance that women entrepreneurs get in India?

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UNIT 2 ASSESSMENT OF BUSINESS OPPORTUNITY

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Structure

2.0 INTRODUCTION

The first Prime Minister of India, Pandit Jawaharlal Nehru, had emphasized that 'real progress must ultimately depend on industrialization. Throughout the world, industrialization has indeed become the magic word of the mid-twentieth county'.

Industrialization is widely recognized not only as one of the important factors for socio-economic transformation and for achieving industrial self-sufficiency, but also for the accelerated development of other sectors such as agriculture, transportation, trade and services. This means that any sector alone cannot be developed without developing other potential sectors, which may directly or indirectly influence it. Business opportunity identification is a process which accelerates economic growth, effects structural changes in the economy, particularly in respect to resource utilization, production functions, income generation, occupational patterns, population distribution and foreign trade, and induces social change.

Well-trained entrepreneurs can bring industrialization to a developing country like India. Thus, entrepreneurship is one of the most important factors of industrialization in the process of economic growth. Nowadays aspiring entrepreneurs can get information regarding various investment opportunities from the Internet, business magazines, financial institutions, government, commercial organizations, friends and relatives.

2.1 UNIT OBJECTIVES

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

- Understand the meaning of business opportunity
- Know the various sources of business opportunities
- Understand the modalities of information collection
- Understand the importance of environment analysis

2.2 SEARCH FOR BUSINESS IDEAS

What are the motivational factors that drive an entrepreneur to launch a business? For example, Jemini Tooth Powder is the idea of a woman who, frustrated with existing tooth cleaning items, launched a new tooth powder of her own. There are many such incidents and issues which are directly connected with an entrepreneur's frustrations with existing products or services. These have propelled them to launch successful enterprises.

Business opportunity may be defined as an attractive project idea which an entrepreneur accepts as the basis for his investment decision. A business opportunity has two major ingredients.

1. Growing markets
2. Optimum return on investment

The entrepreneur has to prepare a list of project ideas identified from various sources. The business opportunities are evaluated against a set of specific criteria to select those projects which are commercially viable.

The following are the criteria for evaluation.

1. **Well-matched with the promoter:** The entrepreneur should ensure that the proposed project is well-matched vis-a-vis the available financial and human resources.
2. **Favourable and growing market:** With an assured market for the products or services, the project can run successfully. So, the existing and potential demand in the market, consumption trends, nature of competition, availability of substitutes and technological development, sales efforts required, and export possibilities are the factors to be evaluated by the entrepreneur.
3. **Government regulations:** The project to be undertaken should not violate government rules and regulations.
4. **Risk:** Risks are unavoidable. Entrepreneurs are not only facing pure risk but also strategic, financial risk. The willingness to assume risk is a major characteristic of an entrepreneur. However, unnecessary risk is foolhardy. It is difficult to predict the future. But the possible effect of unfavourable future events on each of the project ideas can be examined. The following factors should be considered:

   (a) Market stability in economic cycles

   (b) Technological risk

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(c) Domestic competition as well as from imports
(d) Legislations and controls
(e) Seasonal demand
(f) Predictability of demand

5. **Raw material:** Assurance of continuous and required quantities of qualitative raw material provides half the success of any project. So the availability of raw materials, cost of obtaining it and its supply by the government at concessional rate are factors to be considered by the entrepreneur.

Entrepreneurs should have the knack to recognize a business opportunity. This is fundamental to the entrepreneurial process as well as for building a business. A business opportunity represents a possibility for the entrepreneur to meet a large enough unsatisfied need. Significant research has been done on the opportunity recognition process and several models have been developed. One model that clearly identifies the aspects of this opportunity recognition process is indicated in Figure 2.1.

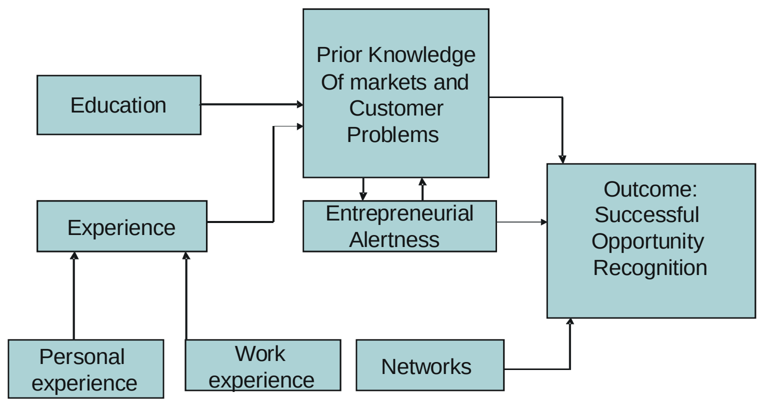

Fig. 2.1 *Model of Opportunity Recognition Process*

Source: From Alexander Ardichivili and Richard N. Cardozo, 'A Model of the Entrepreneurial Opportunity Recognition Process', *Journal of Enterprising Culture*, Vol.8, no.2, June 2000.

Figure 2.1 indicates that the key to recognizing an opportunity lies in the knowledge and experience of the individual entrepreneur and, where appropriate, the entrepreneurial business. This prior knowledge is a result of a combination of education and experience, and the relevant experience could be work related or could result from a variety of personal experiences or events. The entrepreneur needs to be aware of this knowledge and experience and have the desire to understand and make use of it. The other important factors in this process are entrepreneurial alertness and entrepreneurial networks. There is an interaction between entrepreneurial alertness and the entrepreneur's prior knowledge of markets and customer problems. Those entrepreneurs who can recognize meaningful business opportunities are in a strategic position to successfully complete the product planning and development process and launch new ventures.

Check Your Progress

1. Define business opportunity and explain the major ingredients of a business opportunity.
2. What are the risk factors that an entrepreneur has to consider in search of business?
3. Describe the opportunity reorganization process.

2.3 MARKET ASSESSMENT

Informal market assessment has been practiced ever since firms began to market their products, whereas formal market assessment has developed only during the past six or seven decades. The key distinction is that the formal approach is systematic; it follows

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an orderly sequence in which each step is subordinated to a larger systematic whole to provide reliable information for decision making. Formal market assessment has been predominantly helping entrepreneurs to use the scarce resources in the right way.

Market assessment therefore refers to systematic collection, recording and analysis of data. This data is used to develop an appropriate information base for decision making related to new product development or an existing product in marketing area.

Although it is important for an entrepreneur to evaluate ideas against personal considerations, it is equally important to assess them against marketplace considerations. His decision about which entrepreneurial direction to take should not be made without considering the market factors. His idea will have to be viable in a competitive and dynamic marketplace. Consequently, his choice needs to be made with an eye on the market. The more market-driven the venture, the greater are the chances of success. The following questions may be asked in relation to evaluating the marketplace potential:

(a) How is the proposed entrepreneurial venture to be promoted and advertised?
(b) How is the proposed idea to be priced? Has the break-even point been calculated?
(c) Where and how might the product be purchased by the potential customer?
(d) What are the distinct or similar features that the proposed product has in relation to what is presently available in the market?
(e) Who (how many and where) are the potential customers for an entrepreneur's idea?

The broad-based questions force an entrepreneur to at least think about the viability of the proposed entrepreneurial idea. Although the idea may appear impressive on paper, if there is no market for it, the chances of success are zero.

A market feasibility study is a structured and systematic analysis of the various aspects related to market area of a proposed entrepreneurial venture designed to determine its workability. A well-prepared feasibility study can be an effective evaluation tool to determine whether or not an entrepreneurial idea is a potentially successful one. In addition the feasibility study can serve as a basis for the all-important business plan.

What does a feasibility study include? It should give a description of the important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of the following elements.

1. Detailed product description
2. Identify the target market (who, where, how many)
3. Describe where the product will be distributed (location, traffic, size, channels, etc.)
4. Price determination (competition, price lists, etc.)
5. Promotion plans (role of personal selling, advertising, sales promotions, etc.)

2.4 SOURCES OF INFORMATION

Entrepreneurship researchers have looked at the sources of an entrepreneur's ideas. These studies have shown that the sources of their ideas are unique and varied. In one survey, 60 per cent of respondents said working in the same industry was the major source of ideas for business. For example, Vance Patterson, CEO of Patterson Fan Co.

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(*www.pattersonfan.com*), manufacturer of industrial fans, found two of his employees cooking hamburgers on an odd-looking grill. They had created the device out of spare parts, and it seemed that the odd shape of the flared fan parts kept the unit cooler than other grills and allowed air to circulate more evenly. Recognizing the uniqueness of the idea, he got a patent for the grill in his name and the names of the two employees who invented it, James Ballentine and Robert Carter. Another survey of 100 entrepreneurs who created some of the fastest-growing private companies in the United States showed similar results. An overwhelming majority (71 per cent) of the respondents replicated or modified an idea gained through previous employment. The next largest percentage of survey respondents in this particular study (20 per cent) said they got their ideas for an entrepreneurial venture from a serendipitous (coincidental) discovery.

Entrepreneurs might use numerous idea sources. These are shown in Table 2.1.

Table 2.1 *Potential Sources of Entrepreneurial Ideas*

Sources		What to look for
• Hobbies or personal interests • Abilities, skills and work experience • Familiar and unfamiliar services and products External environmental opportunities in the legal-political, economic, demographic, socio-cultural and technological sectors	Ideas for Entrepreneurial Venture	• Limitations of what is available at present • Approaches that are different and novel • Breakthroughs and advances • Niches that are unfilled • Changes and trends

Table 2.1 illustrates some of the more common sources and what to look for while exploring them. Let us look more closely at the four main sources of ideas.

1. **Personal interests or hobbies:** Many entrepreneurial ventures were formed because of an entrepreneur’s love of doing something such as restoring antique automobiles, scuba diving, baking grandma’s scrumptious praline chocolate brownies, etc. A successful entrepreneurial business might be built around one’s personal interests in a particular product or activity.
2. **Work experiences, knowledge, and skills:** By tapping into the knowledge of a particular industry or market gained by working in it, an entrepreneur can pinpoint areas of potential opportunity. For example, if you’ve ever travelled, you’ve undoubtedly seen those suitcases with wheels. Now wasn’t that a great idea! Robert Plath created the first wheeled suitcase, the Travelpro Rollerboard, because in his job as an airline pilot he was constantly carrying his bags from one place to another, and he was looking for a more convenient, comfortable way to do so. In the process of using his work-related experiences and knowledge, he created not only a new product but also a new industry!
3. **Products and services currently available (both familiar and unfamiliar):** What products do you use everyday? Do they do everything that you wished they would? What about products you are not familiar with? Can you take what you are familiar with and apply it to those unfamiliar ones? Answers to the above questions are sources of idea generation to an innovative entrepreneur.
4. **External environment:** Positive trends or changes that provide unique and distinct possibilities for innovating and creating value – in the entrepreneurial context. These opportunities can be found in the technological, societal culture, demographics, economic and legal-political sectors.

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Those were the potential sources of entrepreneurial ideas, but what are the specific things that an entrepreneur should look for? Basically, he should look for changes and trends, unfilled niches, breakthroughs and technological and scientific advances, different and new approaches, and limitations of what is currently available. Any of these could provide a potential idea for an entrepreneurial venture. But, perhaps this is not enough. Even with the wide variety of idea sources, an entrepreneur may have difficulty in coming up with an idea for his entrepreneurial venture. At this point, he may want to use some different, more structured approaches to help generate ideas. There are four different structured approaches that he might use:

(i) Environmental scanning
(ii) Creativity and creative problem solving
(iii) Brainstorming, and
(iv) Focus groups

(i) **Environmental Scanning:** Does the aspiring entrepreneur know the latest scoop on what is happening in the business world? Has he read the latest news headlines? Does he know what books or movies are popular right now? If yes, it is an indication that has a good environmental scanning ability. One technique that entrepreneurs can use to generate ideas is environmental scanning, the process in which huge quantities of information are screened for detecting the terns that may be emerging. Here are some ‘ideas’ to stimulate one’s own idea creating by scanning the world around: Read the local and other major metropolitan newspapers (The *Hindu*, *New York Times*, the *Washington Post*, *USA Today*, and others); read business publications (*Business Line, Economic Times, Business Week, Fortune, Financial Times, Fast Company, Wall Street Journal,* and others); read popular consumer and new magazines, review the fiction and nonfiction best-seller lists; review government and consumer publications; subscribe to relevant trade publications; pay attention to commercials; watch and review top prime-time television shows; browse the magazine section of book store; walk through a local shopping mall to see what is there; and so forth.

(ii) **Creativity and creative problem solving:** This is the capability for combining ideas in a distinct manner or making unusual connections between them. It means cross-thinking by seeing new angles, connections, and approaches. The whole area of creativity has been extensively researched and studied, resulting in a lot of information – all of which cannot be covered here. Instead, what can be understood about the role of creativity and creative problem solving as a structure technique for generating ideas is that a number of specific creativity approaches can be used. Here are a few specific techniques:

- **The checklist method,** in which an entrepreneur uses a list of questions or statements to develop new ideas;
- **Free association,** whereby an entrepreneur develops a new idea through a chain of word associations;
- **Attribute listing,** in which an entrepreneur develops a new idea by looking at the positive and negative attributes of a product or service.

Using any of these structured creative problem-solving approaches can help an entrepreneur unlock his creativity and generate potential entrepreneurial ideas. If he needs more information on how to be creative, he can research the topic at the library or on the Internet.

(iii) **Brainstorming:** It is one of the most familiar and widely used techniques to generate ideas. It is an idea-generating process for developing creative solutions that encourages as many alternatives as possible while withholding criticism. Brainstorming is a relatively simple technique that is typically done with a group of people. (You could do this with friends or colleagues). In a brainstorming session, a group of people gets together in a room, preferably one with a relaxed environment, where everyone is free to stretch their minds and think out of the box. A group leader states the issue or problem to be addressed and ensures that all participants understand it. The members contribute as many ideas as they can in a given time by describing them verbally (often shouting them out). Participants are encouraged to come up with as many ideas as possible and to build on each others' ideas. No criticism of ideas is allowed during the brainstorming session. Instead, all ideas, no matter how illogical or crazy, are recorded for later discussion and analysis. Brainstorming is an idea-generating process that opens up many alternatives. It can be a frenzied, yet productive way to generate numerous ideas.

(iv) **Focus groups:** The final structured approach to generating ideas is the use of focus groups. These groups of individuals provide information about proposed products or services in a structured setting. In a typical focus group, a moderator focuses the group discussion on whatever issues are being examined. For instance, a focus group might look at a proposed product and answer specific questions asked by the moderator. In other instances, the focus group might be given a more general issue to discuss and the moderator simply leads the discussion based on comments made by the group. Either way, a focus group can provide an excellent way to generate new ideas and to screen proposed ideas and concepts.

5. **The Role of Intuition:** We cannot leave our discussion of generating ideas without looking at the role of intuition. Intuition is cognitive process whereby we subconsciously make decisions based on our accumulated knowledge and experiences. It has been called that 'Aha feeling you get when your internal search engine hits its mark'. It may also be called 'gut feeling'. Researchers have shown that a person's intuition can be measured. Measure yours by using the FYI box titled 'As Good As a Guess'. Although structured, methodical approaches to generating ideas are important, intuition can also play an important role. Intuition can be a powerful source of new ideas. Maybe the best approach of all would be to combine the structured with the intuitive. After all, the two complement each other. Entrepreneurs can listen to that 'inner voice' and then use more structured approaches to fine-tune their ideas. Although generating ideas is an important process for entrepreneurs, it is only half the battle! Ideas have to be carefully examined before taking action and proceeding with an entrepreneurial venture.

6. **Other sources of business or product ideas**

   Other sources of business or product ideas are as follows:

   - **Emerging new technologies and scientific know-how:** Commercial exploitation of indigenous or imported technologies and know-how are other sources of business for entrepreneurs in developing countries, especially in the case of import substitute product manufacturing.

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- **Trade fairs and trade journals:** Magazines, journals, industries or trade fairs offer wide scope for business opportunities to aspiring entrepreneurs of developing countries like India in the area of small scale and tiny sectors.
- **Social and economic trends:** Social and economic status of people is always dynamic in nature and offers wide opportunities. An entrepreneur should observe such changes. For example there is a shift towards readymade garments; possessing consumer durables, retail shopping malls, western outfits, priority and preferences for cosmetics, etc.
- **Changes in consumption pattern:** Entrepreneur should pay attention to the consumption levels or habits of domestic as well as foreign consumers.
- **Market characteristics:** Aspiring entrepreneurs should study market characteristics to get wide range of business ideas. Unfulfilled demand of a product will open the door for a new product. Supply and demand of various products and demand for new products should also be analysed.
- **Product profile:** An analytical study of the end products and by products can be the genesis of new project ideas. For example, byproducts of the sugar industry gave rise to one more large scale industry, the paper industry.
- **Import and exports:** The Government of India is encouraging exports and various Export and Import (EXIM) policies encourage entrepreneurs to think about new options.
- **Stimulation of sick units:** Investment on a sick unit is highly risky but a sick unit gives ample investment opportunities to a dynamic entrepreneur. He can stimulate and turn a sick unit into a profitable one.

2.5 MODALITIES OF INFORMATION COLLECTION

The collected information is utilized only for the particular use for which it was intended and is not utilized for anything except what is specified in the privacy statement. This information consists of last and first name, total combined household income, interests, occupation, age, gender, residence/cellular/business/fax/alternate phone numbers, street address, e-mail address, any automobile/home/revolving debt balances and related rates of interest, last and first name of contact, name of the company, budget, past advertising modalities, business services provided, vacation/hotel/travel preferences, billing information, level of interest in business opportunities and estimated time and level of monetary investment in the said business opportunities, along with the desired income levels of the same, and general health status.

Modalities of information collection is the process of analysing and materializing the information collected after a business opportunity has been identified with a clear understanding of the particular sector of business. The process of modalities of information collection gives a clear understanding and scope of the opportunity to start a feasibility study. Here, we will study the emerging business operations which have a large scope of development in future.

Check Your Progress

4. Describe the difference between informal and formal market assessment.
5. What is a market feasibility study and what does it include?
6. What are the common sources of ideas?
7. Describe brainstorming.

Chakraborty, D. and Hui Lei, University of Maryland, Baltimore, MD, USA, have expressed in their paper *Pervasive Enablement of Business Processes* that 'People are an important part of many business processes. Current workflow-based implementations of business processes constrain users to the desktop environment; require them to periodically check for pending tasks; and do not support direct or synchronous people-to-people interaction. On the other hand, the wide spectrum of people collaboration tools ranging from telephones to instant messaging and to email has no provision for structured collaboration and is separate from business processes.'[1]

A system known as PerCollab has been designed and implemented by them for integrating collaboration technologies and workflow. This permits the participation of people in a business process from any location with the use of traditional collaboration mechanisms. It also enables users to proactively engage in a business process by means of channelizing the communication to convenient devices for the user. An extended BPEL is used by PerCollab for formally defining a business process with a human partner and exploiting dynamic user contexts for solving personal mobility problems. Diverse collaboration tools such as e-meetings, emails and instant messaging are integrated by the prototype implementation in PerCollab. The innovation is helpful to those engaged in various business activities in different areas to interact.

Mobile phones and the Internet can be seen as the two most successful technological inventions of the past decade. Both the technologies have developed and spread rapidly, resulting in considerable unforeseen shifts in consumer behaviour. Recently, interest in the application of mobile technology has increased, both in business settings as well as consumer markets.[2] Consequently, the relationship between improving the performance of a business and the use of mobile technology has become an important theoretical and practical issue. Pablo Valiente in his research work titled *A Method to Identify Opportunities for Mobile Business Processes* concluded that 'As with most applications of technology, we do not believe that mobile technology by itself can contribute to performance. People, systems and processes must work *in concert* to achieve higher performance levels. Further research should be directed towards deeper studies of the different usage levels of technology and the way they impact the processes and the people that participate in it.'[3]

L. Gregory Pawlson, in an article titled 'Health Information Technology: Does It Facilitate Or Hinder Rapid Learning?' *Health Affairs, The Policy Journal of the Health Sphere* (Published online 26 January 2007) expressed modalities of information regarding the healthcare business. In his view, 'Health information technology presents major challenges as well as opportunities in creating care that fulfills the Institute of Medicine's aims of being safe, timely, effective, efficient, equitable, and patient-centered. This commentary examines the barriers that relate directly to the collection and use of information in practice, and it explores some of the possible solutions. Only through concerted efforts involving major changes in the way we collect, store, analyse, and use information related to the care of patients with cancer, paired with active practice redesign and reimbursement reform, are we likely to achieve the substantial progress envisioned by Paul Wallace.'[4]

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[1] 'Pervasive Computing and Communications', 2004. *PerCom 2004*. Proceedings of the Second IEEE Annual Conference Publication Date: 14-17 March 2004 On page(s):87-97, http://ieeexplore.ieee.org/xpl/freeabs_all.jsp?arnumber=12768480).

[2] Heijden and Valiente 2002; Smith, Kulatilaka et al. 2002.

[3] http://swoba.hhs.se/hastba/papers/hastba2002_010.pdf

[4] http://content.healthaffairs.org/cgi/content/abstract/26/2/w178

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Yann-Yann Shieh, American Institutes for Research, Washington DC, in a research work titled *The Effect of Data Collection Modality on Students' Foreign Language Survey* stated that 'Surveys are an invaluable tool for helping diverse research institutes, government agencies, and business organizations to gather information needs. Selection of data collection techniques is generally based on cost, completion time and response rate. Traditionally, surveys have been done using paper-pencil methodologies, which can be costly to administer in terms of time, labour, and materials. Due to the popularity of computer usage, the Internet has dramatically increased the ease and speed of survey administration and data collection, as well as decreasing associated costs, making surveys faster, easier and cheaper than telephone or paper-pencil collecting methods. Researches have shown that paper-pencil and Internet/web methods have often been considered to produce similar results. However, there is some evidence that people may respond differently depending on modality of administration. In addition, because of the important role that surveys play in today's society, it is crucial that the psychometrics of any administered survey be evaluated to assure its technical soundness'.

The purpose of this study is to investigate the effect of data collection modes on the language survey administered via paper and pencil, Internet/web and PDA (palm), as well as to evaluate the psychometric structure of high school students' foreign language self-assessment survey. Data from a self-assessment survey administered to 314 high school senior students across 10 states via paper and pencil, Internet and PDA methods were examined. The students self-assessment foreign language survey was evaluated for the survey dissemination modalities as well as technique soundness and internal reliability. Results showed that for listening, speaking, reading, writing, and total scores, students who used paper-and-pencil administration had higher scores than those who used PDA; and students who used Internet administration had higher scores than those who used PDA.

The advent of Internet or computer-related technology and the ability to post questionnaires on the Web or PDA extends opportunities for assessing and researching psychological function. Although this study was a small-scale tryout, the results of this study represents an important contribution. As Krantz and Dalal (2000) point out, few studies to date have explored differences between Web and traditional survey responses.

As with the current study, they have expanded the data collection modes not only to the paper-and-pencil and Web modes but also to the PDA mode. The findings open the door for researchers to use the information from the self-assessment language survey that has been collected online, paper-and-pencil, and PDA, and prepare for the future development of large-scale language survey. *(Source: www.amstat.org)*

2.6 ENVIRONMENTAL ASSESSMENT

Entrepreneurship environment refers to the various positive and negative constraints within which various enterprises are required to operate. Positive impact refers to existence of various factors facilitating growth and negative impact refers to those factors adversely affecting emergence and growth of entrepreneurship.

An entrepreneur does not emerge by himself. Various economic, social, political, technological and psychological factors are responsible for the emergence and growth of entrepreneurship. These are called the external environmental factors over which an entrepreneur has no control and these have a high impact on entrepreneurial decision making. The environment, especially the external environment, is highly dynamic. It keeps on changing and affects different organizations to varying extents. The degree of environmental impact depends upon the extent to which the organization depends on it and the organization's response to the changes in environment. An entrepreneur should understand the behaviour of key environmental forces that will affect the present and future operations of the enterprise. This is called environmental assessment. Figure 2.2 shows the different environmental factors that affect the emergence and growth of entrepreneurship. These are briefly discussed below.

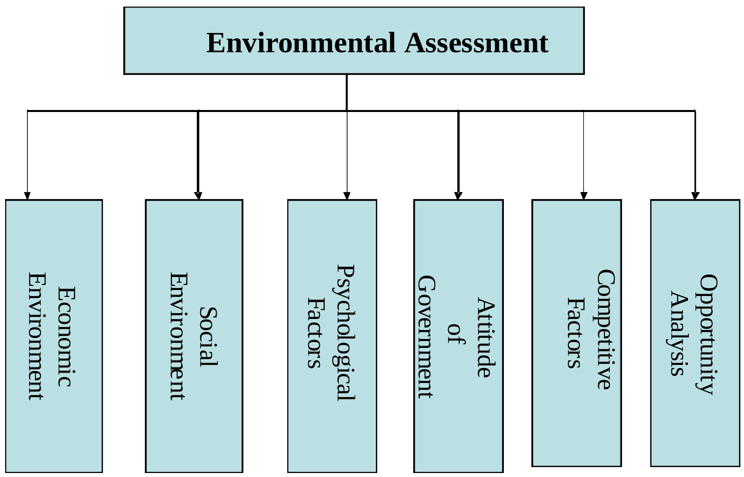

Fig. 2.2 *Environmental Assessment*

2.6.1 Economic Environment

One of the most important factors affecting entrepreneurship is economic environment. It comprises the following:

(i) Capital
(ii) Labour
(iii) Raw Material
(iv) Market

1. **Capital:** This is one of the important factors of production. Adequate capital is required for other factors of production such as purchasing, raw material, labour and machinery. Capital acts as a lubricant in the production process. Increase in capital investment in viable projects results in increase in profits, which helps in accelerating the process of capital formation. Entrepreneurship activity too gets a boost with the easy availability of funds for investment.
2. **Labour:** Location of an entrepreneurship is determined by the production factor of labour. Generally, a mix of skilled, semi-skilled and un-skilled workers is required for production. Easy availability of the right number and quality of workers is a great asset to any enterprise to generate quality products, and to make profits. The advantages accruing to an entrepreneur with low cost of labour are often offset by the disadvantages arising out of immobility of unskilled workers. These disadvantages 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-

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intensive technology will serve our interests better. The problem of labour immobility can be solved by providing infrastructural facilities including efficient transportation, wherever entrepreneurship is to be promoted.

3. **Raw Material:** Raw material is one of the important ingredients in the production process. Insufficient quantity or inferior quality of raw material can adversely affect entrepreneurial environment. Proximity to the source of raw material is one of the influencing factors in deciding the location of industry. Having several suppliers for a similar type of raw material is a wise policy. 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.
4. **Market:** In the present competitive world no entrepreneur can think of surviving in the absence of latest knowledge about markets and various marketing techniques. A market survey and research helps an entrepreneur get the required knowledge about the market condition for his new product launch or for modifying the features of existing product. The benefits of improved and healthy market conditions in the environment on entrepreneurial growth are self evident. Germany and Japan are examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Market demand depends upon purchasing power. This in turn depends upon current income, prices, savings and availability of credit.

Entrepreneurs should keep track of the main trends in the economic environment. Any change in the chief economic variables such as credit availability, savings, interest rates, cost of living, income and money has an immediate effect on the working of an enterprise.

2.6.2 Social Environment

Entrepreneurial behaviour is strongly affected by the social environment, which contributes to entrepreneurial growth. The social setting in which people live 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 marginality.

Family background greatly influences the entrepreneurial environment and maintenance of social system. If the father is an entrepreneur, the son is more likely to enter the same line of business because of certain inherent advantages.

A person is likely to follow the rules of the reference group to which he belongs. The reference group can be a religious group, 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.

Mobility of the entrepreneurs is influenced by the occupation and social status of the family. Social status too affects entrepreneurship. Generally, people aspire for high social status and once they reach that level they start aspiring for the next higher level and then the next. They 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. They work hard to maintain

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and improve their status, and it contributes to entrepreneurial growth. Caste and religion of an entrepreneur are contributory factors of entrepreneurial growth. In India, certain communities such as Jains, Baniyas, Vaishyas and Khatris have been engaged in trade and industry for centuries. They have been the dominant sources of entrepreneurship.

Social mobility involves geographical mobility and the nature of mobility within the system. Not everyone is of the view that social mobility is crucial for entrepreneurial emergence. Some believe that a high degree of mobility is conducive to the emergence of entrepreneurship. On the other hand, there are others who believe that lack of mobility would result in the the emergence of entrepreneurship. There are still others who argue that the system should neither be too flexible nor too rigid because the former would pull the entrepreneur away from his role and the 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 physical characteristics, intellectual make up and social behaviour patterns) and the role or roles which the individual plays in the society. The number of openings available also affects the emergence of entrepreneurship. Expanding economy and increase in per capita income boosts entrepreneurial activity. Similarly, the pace of structural change in the economy opens new opportunities for prospective entrepreneurs.

2.6.3 Psychological Factors

McClelland developed the 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 needed for 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 (SITI), Hyderabad, and Small Industries Service Institutes (SISI) and others all over India are conducting extensive training programmes aimed at generating confidence amongst new entrepreneurs. McClelland carried out a full-fledged programme in Kakinada, Andhra Pradesh. Training was given to a group of persons and was designed primarily to stimulate the imagination and to encourage introspection of personal motivation and community goals. McClelland concluded that participants displayed an active business behaviour and worked for long hours. He found that caste, traditional beliefs, or even western lifestyles did not determine the mental make up of participants. McClelland explains that people with low achievement motivation are prepared to work hard for money or other such incentives but people with high achievement motivation work for status. According to him, people with high need for achievement possess the following attributes:

(i) They take personal responsibility for decisions.
(ii) They are moderate risk takers.
(iii) They have interest in knowing the result 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. He states that the initial condition leading to eventual entrepreneurial behaviour was the loss of status/respect by a group. According to Hagen, four different types of events can produce status withdrawal:

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(i) The group may be displaced by force.
(ii) Its value symbols may be denigrated.
(iii) It may drift into a situation of status inconsistency.
(iv) It may not be accepted into expected status on migration to a new society.

Whenever there is any withdrawal of status respect it leads to the following four different responses and creates four different types of personalities:

(i) **Retreatist.** It refers to the person who continues to work in the society but remains indifferent to his work and position.
(ii) **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.
(iii) **Reformist.** He is the one who foments a rebellion and attempts to establish a new society.
(iv) **Innovator.** A creative individual who is likely to be an entrepreneur.

Hagen believes that creative personalities emerge when 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.

2.6.4 Attitude of Government

In any country the government's attitude towards entrepreneurship plays a very important role in the emergence of entrepreneurship. Positive action by the government can facilitate growth of entrepreneurship whereas negative action can adversely affect it. The government policies towards entrepreneurship can be understood by the industrial policies adopted from time to time by the government. The Industrial Policy of 1956 provided the basic framework for encouraging the entrepreneurs. The New Industrial Policy of 1991 was a reformative policy and has led to the emergence of many new entrepreneurs in India. By providing the right type of infrastructural facilities and other incentives the government can play a positive role for the emergence of an entrepreneurial class and for setting up more and more viable industrial units. The supportive actions of the government can help in creating a conducive environment leading to entrepreneurial growth. It is only due to the various steps initiated by the government over the years under development planning that a positive environment for entrepreneurial growth has been created. The slogan 'Export or Perish' led to export promotion. The government took the following three important steps through various industrial resolutions:

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

The government has the power to regulate business activities. Its policies 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. Entrepreneurs have to operate within the concessions and limits set by the government. Potential entrepreneurs must scan government policies before taking their decision with regard to setting up an enterprise.

2.6.5 Competitive Factors

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In the present context of entrepreneurship competitive factors play an important role. 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 and conditions of sales, etc. Michael E. Porter states the following four factors for the analysis of industry and competitors:

1. **Existing and Potential Entrants.** The various aspects studied are capital requirement, scale of operation, product differentiation, channels of distribution, etc. The perception of 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.

An entrepreneur can achieve success in his venture by undertaking the following four steps:

(i) Educating consumers about the possible use of his product
(ii) Creating a viable demand for his product
(iii) Assessing the existing demand in the domestic and export markets
(iv) Assessing the potential demand

2.6.6 Opportunity Analysis

The role of entrepreneurship in economic development varies from economy to economy depending upon human and material resource, industrial environment, and the importance attached to entrepreneurial growth by the political system. The emergence, working and growth of entrepreneurs are facilitated in those economies where favourable conditions exist.

According to Joseph Schumpeter, an ‘Entrepreneur is one who seeks to reform or revolutionize the pattern of production by exploiting an innovation or more generally an untried technological possibility for producing a new commodity or producing an old one in a new way by opening up a new source of supply of material or a new outlet for a product.’ Thus, Schumpeter is of the opinion that an entrepreneur is always on the lookout for potential profitable opportunities and exploits them in the best interest of his enterprise.

According to Peter F. Drucker, an entrepreneur must be capable of analysing the opportunities and exploiting them successfully. According to him, opportunities are of three kinds the following:

- Additive opportunities
- Complementary opportunities
- Breakthrough opportunities

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Additive opportunities are those which enable the decision maker to better utilise the existing resources without in any way changing the character of a business.

Complimentary opportunities involve the introduction of new ideas and as such lead to a certain amount of change in the existing structure.

Breakthrough opportunities on the other hand involve fundamental changes in both the structure and character of the business.

Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence there is least amount of risk. There is more risk involved in complimentary and breakthrough opportunities.

With the increase in risk it becomes all the more important for the entrepreneur to carefully define the nature and scope of the project idea. He should also analyse the various solutions aimed at realizing objectives of the project by selecting those solutions which on the one hand help in reducing cost and risks and on the other hand facilitate the realization of maximum possible returns to the enterprise. Entrepreneurs have to consider availability of the 5 Ms, i.e. Men, Material, Machines, Money and Markets. They are equally concerned about availability of infrastructural facilities such as roads, power, water, severage and communication. The entrepreneur also considers various financial and non-financial incentives provided by the government, availability of markets, environmental factors, and so on.

2.7 SUMMARY

Industrialization is widely recognized not only as one of the important factors of socio-economic transformation and achieving industrial self-sufficiency but also for the accelerated development of other sectors such as agriculture, transport, trade and services. Business opportunity may be defined as an attractive project idea, which an entrepreneur accepts as the basis for his investment decision. A business opportunity has two major ingredients: growing markets and optimum return on investment.

Opportunities lie in the experience and knowledge of the individual entrepreneur, and where appropriate, the entrepreneurial business. Market assessment refers to the systematic collection, recording and analysis of data relevant to marketing problem of a business in order to develop an appropriate information base for decision-making related to new product development or on existing product in marketing area. There are four structured approaches that can be used to generate ideas: (i) Environment Scanning, (ii) Creativity and creative problem solving, (iii) Brainstorming, and (iv) Focus groups.

The modalities of information collection is the process of analysing and materializing the information collected after a business opportunity has been identified with a clear understanding of that particular sector of business. Various authors have made known their observations, in their research work, on the modalities of information collection. Entrepreneurship environment refers to the positive and negative constraints within which enterprises operate. Positive impact refers to the existence of various factors facilitating growth and negative impact refers to the factors adversely affecting the emergence and growth of entrepreneurship. Environment analysis is to be performed on the basis of economic, social, psychological and competitive factors and attitude of the government.

Check Your Progress

8. What is meant by modalities of information collection?
9. Describe environment analysis.
10. What is Peter Drucker's view of opportunities?

2.8 KEY TERMS

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- **Entrepreneurial development:** A process to enrich the knowledge and skills of an entrepreneur by a systematic way and through job training for overall development of entrepreneurial activities.
- **Strategic risk:** The factor that could lead to the failure of an organization's goals and objectives.
- **Financial risk:** The factor that could lead to an organization's inability to recover its investment on a project.
- **Environmental scanning:** Acquiring up to date knowledge on the present trends and factors that influence business decision making.

2.9 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Business opportunity may be defined as an attractive project idea, which an entrepreneur accepts as the basis for his investment decision. A business opportunity has two major ingredients. 1. Growing Markets 2. Optimum return on investment.
2. The risk factors to be considered by an entrepreneur in consideration of business search are a) market stability in economic cycles, b) technological risk, c) domestic competition as well as competition from imports, d) legislations and controls, e) seasonal demand and f) predictability of demand.
3. The key to recognizing an opportunity lies in the knowledge and experience of the entrepreneur. This knowledge is a result of education and experience. The relevant experience could be personal or work related. The entrepreneur needs to be aware of this knowledge and experience and have the desire to understand and make use of it.
4. Informal market assessment has been practiced ever since firms began to market their products, whereas formal market assessment has developed only during the past six or seven decades. The key distinction is that the formal approach is systematic; it follows an orderly sequence in which each step is subordinated to a larger systematic whole to provide reliable information for decision making. Formal market assessment helps entrepreneurs use scarce resources in the right way.
5. A market feasibility study is a structured and systematic analysis of the various aspects related to market area of a proposed entrepreneurial venture designed to determine its workability. A well-prepared feasibility study can be an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one. It should give descriptions of the important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of following elements in relation to market assessment of an identified idea. a) Detailed product description b) Identify the target market (who, where, how many) c) Describe where the product will be distributed (location, traffic, size, channels, etc.) d) Price determination (competition, price lists, etc.) and e) Promotion plans (role of personal selling, advertising, sales promotions).

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6. The common sources of ideas are 1) personal interests or hobbies, 2) work experiences, knowledge and skills, 3) products and services currently available (both familiar and unfamiliar) and 4) external environment.
7. Brainstorming is an idea-generating process that throws up many alternatives. It can be a frenzied, yet productive way to generate numerous ideas.
8. Modalities of information collection is the process of analysing and materializing the information collected after a business opportunity has been identified with a clear understanding of that particular sector of business. The process of modalities of information collection gives a clear understanding and scope of the opportunity to start a feasibility study.
9. Environment analysis involves the key environmental forces such as economic, social, political, technological and psychological factors, attitude of government, competitive factors and opportunities that are going to affect the present and future operations of the enterprise.
10. According to Peter F. Drucker, an entrepreneur must be capable of analysing the opportunities and exploiting them successfully. According to him, opportunities are of three kinds. Additive opportunities are those which enable the decision maker to better utilize the existing resources without in any way changing the character of the business. Complimentary opportunities involve the introduction of new ideas and cause a certain amount of change in the existing structure. Breakthrough opportunities involve fundamental changes in both the structure and character of the business.

2.10 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the role of the growth market while searching for a business idea?
2. What are the elements in relation to market assessment of an identified idea?
3. What is meant by external environment?
4. What is environment scanning?
5. What is brainstorming?
6. What are focus groups?

Long-Answer Questions

1. What are the major sources of information for identification of a business? Explain.
2. What are the modalities of information collection and how do they help an organization?
3. Define environment analysis. What are its components?
4. What are the modalities of information collection? Discuss opportunity analysis.

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UNIT 3 SELECTION OF BUSINESS OPPORTUNITIES IN DIFFERENT SECTORS

Structure

3.0 INTRODUCTION

It is the ingenuity, skill and foresight of entrepreneurs that can guide them to choose the best business opportunity. The entrepreneur has to select a feasible and rewarding opportunity in order to make it an enterprise. For this purpose, he has to evaluate some considerations and understand the gap between demand and supply. He has to study government rules and regulations regarding different business opportunities, conduct an extensive study of promising investment opportunities, conduct a SWOT (Strength, Weakness, Opportunities and Threats) analysis of business potential and conduct a market survey. In this unit, you will study about the aforementioned factors that help in determining and establishing better business opportunities in different sectors.

3.1 UNIT OBJECTIVES

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

- Identify entrepreneurial opportunities in different sectors
- Understand how to select business opportunities

3.2 ENTREPRENEURIAL OPPORTUNITIES IN DIFFERENT SECTORS

The Internet has ushered in numerous fundamental alterations in the economics of the service industry and contributed significantly to the emergence of newer network-based global e-business models, along with identifying SMEs as the primary users of Internet commerce. Some of the practical hindrances that come in the way of SMEs going

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online include developing capabilities to manage the information infrastructure for e-business and strategically appreciating the Web dynamics.

With the liberalization and globalization of the Indian economy, the Indian entrepreneurs have to face fierce competition from new entrants and free import from anywhere on the globe. Even in consumer products which till now had some protection, there will be severe competition. Therefore, future entrepreneurs should have exposure to the changing trends.

The competition has also opened up opportunities to aspiring entrepreneurs in various sectors such as electronics, communication, food technology, packaging, floriculture, cane/wood craft, textiles, pharmaceuticals, transportation, tourism and hospitality, toy, gems and jewellery. Entrepreneurs have to realize that export orientation, which includes quality and operations of enterprise, is important for success. With emphasis on technology and clean environment, many more opportunities will emerge for Indian entrepreneurs.

India offers several advantages and opportunities for investment. It has a rich resource base, which can be utilized for setting up industrial units in the country. There is immense unharnessed potential in the various sectors of its economy. For instance, it is the largest producer of various food grains and commercial crops which include maize, rice, wheat, potato, large cardamom, ginger and turmeric, cotton, tobacco, jute, and sugarcane, and it utilizes largest area for cultivation of many crops. There is ample opportunity for agro-based industrial development in India. Its traditional handlooms and handicrafts are in demand worldwide. Its proficient manpower can be used for transforming the country into an IT state. Also, its beautiful landscape and rich cultural heritage makes it an attractive tourist destination.

In a world that is becoming more and more interdependent, policies for optimizing comparative factor endowments need to be vigorously pursued by all countries. While transactions are made more seamless by the rapidly changing technology, the global integration process also gets reinforced. According to one observation, it will be the 'power of ideas' that will form the basis of wars and battles in the present century. As societies become more knowledge-based, more knowledge-based industries will be promoted.

India enjoys a unique comparative factor advantage in having a huge reservoir of skilled manpower. It is apparent from the demographic differentials that India will have a unique advantage in the population profiles that are focused on the youth, where a number of novel opportunities would be wholly optimized in the next twenty or thirty years.

A High-Level Strategic Group (HLSG) was set up by the All India Management Association (AIMA) to examine the policies that could facilitate India in optimizing the emerging opportunities. The HSLG comprised leaders from the Government, academia and industry. The group deliberated on these issues and conducted in-depth interactions with the broad segments of the society and arrived at the following conclusions:

1. India's economic growth can be accelerated and the unemployment problem that is forecasted for its future mitigated if the vast opportunities that the combination of global development in demographics, trade and industry provide are seized by it.
2. A number of agencies must act immediately so that the best use can be made of these opportunities. India seems to be enjoying huge gains even in the face of a not very optimistic scenario of global economic growth. Hence,

no more time must be wasted in debates about the exact size of such opportunities. Instead, India should act immediately on them.

3. The alterations that need to be made at the macro level have been identified by the HLSG and appropriate recommendations made by it for carrying out these changes. It is necessary now for the concerned agencies to briskly engage themselves in action particularly in sectors where it is necessary for thr Government and businessmen to collaborate more effectively.
4. The key to success lies in entrepreneurship in action and thought, alignment among the participants and quick execution.

3.2.1 Manufacturing Sector

The economic potential of a country is reflected in the growth rate of its manufacturing sector. The majority of developed countries have strong manufacturing sectors. Although the economic success of the Indian service sector has been relatively fast, a significant role is still played by the manufacturing sector in terms of sustainability. The Indian economy has witnessed a manufacturing revolution in the last few years, which has received impetus from the growing presence of MNCs, the expansion in the domestic market as well as the operations of domestic firms being scaled up. The average growth of the sector between 2004 and 2008 has been about nine per cent, with the highest growth of 12.3 per cent being recorded in 2006–07, when it made a contribution of 16.3 per cent to the GDP.

The Indian manufacturing base is ranked fourth in the list of the largest manufacturing bases in emerging economies and is one of the fastest growing manufacturing bases. Its level of investment as a proportion of the GDP is exceeded only by China.

If a Centre for Monitoring Indian Economy (CMIE) report is to be believed, a 33.9 per cent growth has been registered by 2,144 listed manufacturing companies in terms of their aggregate net sales. This is apparent from their financial positions in the June 2008 quarter. In fact, the manufacturing industry has grown at about 22.6 per cent in terms of its inflation-deflated sales.

Consequently, India is fast growing to be a global manufacturing hub. All the necessary skills in capital engineering, process and product are possessed by the country as a result of its higher education system, combined with its long manufacturing history. Numerous enterprises from varied industries are attracted by the cheap, skilled Indian manpower, in turn turning the country into a global manufacturing powerhouse.

- An extra $75 million is being invested by Nokia in its Sriperumbudur plant, making the total investment $285 million. About 50 per cent of its production at Sriperumbudur is exported to countries across Africa, the Middle East, New Zealand, Australia and Asia.
- India is the manufacturing hub for Suzuki's small cars. It is only in India that the 'A-Star' is manufactured and exported to Europe.
- Like Suzuki, India is now the export and manufacturing hub for Hyundai's small cars as well. It is solely in India that the 'i10' is manufactured and exported to the other countries. Outside of Korea, the largest base of Hyundai is in India.
- India will be made the manufacturing hub for engine manufacturing by Ford.
- Samsung has planned an investment of about $100 million in its Chennai manufacturing plant within the next 4 years and intends to make it its global hub.

- India has been made the manufacturing hub of the newly developed line of Cummins generator sets.

India advantage

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The huge domestic market in India as well as the availability of cheap, skilled manpower attracts the forever growing number of MNCs, who wish to set up their manufacturing bases in India.

The very size of the market in India is quite appealing. According to a study conducted by the McKinsey Global Institute, given the rate at which the Indian economy seems to be growing, it is probable that by 2025, India will have become the fifth largest consumer market in the world, rising from its twelfth position in 2005. It is also estimated that, by 2025, the aggregate Indian consumer spending would have quadrupled to about $1.5 trillion, as a result of a three-fold hike in household income and a ten-fold raise in middle class population.

An abundance of technical and engineering manpower too is offered by India, which produces roughly 4000,000 engineering graduates every year. Interestingly, it is expected that the technical workforce will exceed one million in the current year, with the move to two million from one million taking place within approximately three years.

Global manufacturing exports hub

A CII-McKinsey report estimates that by 2015, manufacturing exports could go up from $48 billion in 2003 to $300 billion so that India's share in world manufacturing trade would go up from 0.8 per cent to 3.5 per cent.

Emergence of third-party logistics (3PL) as a fast-growing manufacturing sector in India

Top car-makers from across the globe are now considering India for their vehicle components. As a result of capitalizing on the rapidly increasing demand for domestic automobile firms, the demand for 3PL is being strengthened within the Indian automobile components industry, which in turn is fast rising as one of the fastest growing and globally competitive Indian manufacturing sectors.

Recently, Frost and Sullivan strategically analysed 3PL markets in the Indian auto components sector and discovered earned revenues of $172.0 million in 2006 that were likely to increase to $900.6 million by 2013.

'The encouraging growth in global and intra-Asian level trade of Indian auto components sector has created many avenues for 3PL adoption and more can be expected due to India's active participation in the regional free trade agreements,' said Frost & Sullivan research analyst, Srinath Manda.

The prospects for the auto components 3PL markets are bound to get better consequent on this. Given the emergence of India as an auto components sourcing hub, a number of opportunities have opened up for intra-Asia trade in terms of professional export/import logistics services.

The stable sales growth in the automotive market is pressurizing its supply chains, thereby adding to the need for improving the efficiency of makers of auto components so that bigger orders can be seized, in turn increasing the use of 3PL in the auto components sector.

Indian auto component firms are exhibiting a positive attitude towards 3PL providers. Consequently, in this sector, achieving higher penetration of 3PL usage becomes easier for providers.

Consistent delivery of high quality services is a must for 3PL providers if they wish to acquire more business from the auto components sector in India. It is also necessary for service providers to offer integrated logistics services at a reasonable cost so that the growing demand from clients can be matched.

Frost and Sullivan point out that tackling the challenges of unorganized competition, meeting customer expectations and shortage of skilled manpower is necessary for 3PL service providers if their market presence is to be established. 'Service providers who help their clients realize significant savings in logistics, cost, and improving efficiencies in the supply chains are bound to witness greater success in this highly potential market,' says Manda.

Manufacturing sector is India's largest employer: Census

The Central Statistical Organization (CSO) conducted an official economic survey in 2005 and showed that roughly 100.9 million people were employed in 41.8 million establishments across India, with a growth rate of 2.78 per cent and 4.69 per cent respectively, between 1998 and 2005. The non-farm sector remained the primary source of employment, providing employment to 90 million people, as against 10.9 million in the agriculture sector.

'Retail and manufacturing establishments continue to be the key employment providers in India. It is a significant pointer that India has a great deal of potential for growth in these two sectors,' said S.K. Nath, Director General, CSO. The survey showed that the manufacturing sector employed 25.5 million people or 25.25 per cent of the total workforce, followed by 25.1 million or 24.91 per cent respectively for the retail trade sector.

3.2.2 Services Sector

Nearly half of India's GDP comes from the services sector. It is evident from data for the financial year 2006–07 that the agricultural, industrial and tertiary (services) sectors in India contribute 18.5, 26.4 and 55.1 per cent, respectively to the GDP. This contribution of the services sector constitutes an extremely significant event in the evolution of the economy in India and is instrumental is taking it closer to a developed economy. The services sector includes a broad range of activities such as technical consultancy, management, security, transportation, real estate, infotainment, banking and finance and trading. The diverse sectors that together comprise the tertiary sector are as follows:

- Community services
- Personal services
- Public administration and defence
- Business services
- Dwellings and real estate
- Insurance
- Banking
- Communication (post, telecom)

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- Transport and storage
- Railways
- Hotels and restaurants
- Trade
- Other services

The growth rate of the tertiary sector accelerated markedly in the 80s, more so in the 90s. The tertiary sector's contribution to the GDP grew by 21 per cent between 1950 and 2000, of which almost 40 per cent occurred in the 90s. Although there was active participation from nearly all service sectors in this growth, the areas that witnessed the fastest growth were business services, trade, community services, hotels and restaurants, banking and communications. One reason why the tertiary sector grew suddenly in the 90s was because the regulatory framework was liberalized, thus encouraging innovation and more export of services. However, a similar expansion in jobs was not created with this escalation of the tertiary sector. The increase in the contribution of the service sector to the GDP did not, at the same time, proportionally increase national employment. A few economists caution that the the industrial sector must necessarily grow in proportion to the service sector, otherwise the latter's growth may not be sustainable. Given the present economic state of affairs, it seems that the escalation of the tertiary sector will continue for some time as India emerges as the global services hub.

India's IT services sector refreshes itself

Arno Franz, a partner and Asia-Pacific managing director of sourcing advisory firm TPI, has said that over 700,000 people are employed by the Indian IT-enabled services (ITES), along with accounting for roughly 35 per cent of the BPO market across the globe. According to him, 'India BPO export revenues have grown to nearly $11 billion, or up by 30 per cent, for the year 2007–2008'. While ITES and BPO services in India continue to depend a lot on outside market conditions, it is still uncertain what the effect of an economic recession will be on the ITES-BPO industry in India. Nevertheless, this uncertainty has compelled BPO firms to re-examine their strategies and offerings.

According to Sol E. Solomon, ZDNet Asia, the ITES industry environment is shifting in India, even as it remains, as in the past, a source of employment and growth in the country.

According to Girija Pande, Asia-Pacific executive vice president and head of Tata Consultancy Services (TCS), 'IT is cautiously optimistic about growth, despite the global economic downturn, because the outsourcing services provider sees continued demand for its various service offerings across markets. Our diversified and growing presence in different markets and the investments we have made are also significant drivers of our growth'. Table 3.1 shows Indias IT services market forecast.

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Table 3.1 *India's IT Services Market Forecast,2006–11 ($ million)*

	2007	2008	2011	CAGR 2006 - 2011
Hardware maintenance and support	868	1,033	1,724	20.7
Software support	774	950	1,771	24.8
Consulting	474	607	1,174	28.1
Development and integration	1,765	2,125	3,516	21.1
IT management	743	915	1,598	23.8
Process management	406	510	948	27.1
TOTAL	5,031	6,140	10,729	23.2

Source: Gartner.

He noted that, 'Emerging markets offer ITES companies great opportunities for growth. TCS, for example, is making large investments in Latin America and the Asia-Pacific region, including India. It is estimated that these regions account for 25.5 per cent of the $730 billion global IT services market, which is growing at a faster annual rate of 8 per cent, versus the developed market growth rate of 6 per cent. The Asia-Pacific region is playing a significant role in TCS' expansion, noting that the company is growing at a compound annual growth rate (CAGR) of 49 per cent. Currently, US revenues make up less than 50 per cent of our total revenues. TCS is also looking to increase its presence in other emerging markets such as Eastern Europe, West Asia and Africa. To do this, we will consolidate our operations in these regions into a strategic business unit. Already, emerging markets account for almost 20 per cent of our revenues.'

Telecommunication sector opportunities in India

The Ministry of Communication and Information Technology in New Delhi recently conducted a survey on telecommunication sector opportunities in India. The survey results showed that the telecommunication sector has grown phenomenally in the past three years. The telecom sector is one of the leading contributors to India's flourishing economy. Taking into account the statements of Ministry of Communications and Information Technology, the report stated that telecom opportunities in India have been growing at the rate of 20 to 40 per cent every year since the past three years. Telecom services in India have been recognized as a world-class tool for socio-economic development in India, which ranks fourth in the telecom industry in Asia after China, Japan and South Korea and the telecom network in India ranks second among the emerging economies and eighth across the globe.

The tele-density has jumped from 2.3 per cent in 1999 to 4.8 per cent in 2002. The world average percentage for the telecom industry as against the Indian average is 7.5 times while the Asian average against the same was 4.5 times. The current market range of the telecommunication industry in India is estimated at $8 billion and this is expected to undergo an accretion by the end of 2012.

The growth witnessed by the telecom market in India has increased the number of opportunities for the industry. This has been fueled by the growing mobile sector, which attained the consumer level of 10 million by the end of December 2002 (that was

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almost 100 per cent in the year). This outstanding growth in the mobile sector explains the advent of digital cellular technology and reduced tariffs as a consequence of competitive pressures. The growth in the cellular subscribers has surpassed the benchmark of subscriber base. The telecom market has increased dramatically with the advent of Wireless in Local Loop Technology.

Telecommunication sector opportunities in India assure a transparent, safe and secure environment for the telecom market. A highly consumer-driven middle class of roughly 300 million is advantageous for the industry surrounding the telecom sector in India. This is because in some parts of India, land line telephones can be substituted by mobile phones. This is very unlike the developed countries. Therefore, it adds up to the growth of the mobile sector in the Indian telecom industry.

Few more telecommunication sector opportunities in India include introduction of Internet telephony services, privatization of VSNL, and introduction of a number of international long distance services sector. Innovative schemes in various sectors have led to a massive increase in the opportunities in the Indian telecom sector and at present this sector is claimed to be one of the major contributors to India's flourishing economy.

Banking and financial services opportunities in India

The financial services sector in India is highly developed. The popularity and prominence of foreign banks is growing in India. The size of Indian banking and financial services is as follows:

- The banking and financial sector is witnessing rapid growth, which has its basis in sound fundamentals (low NPAs, Basel I compliance)
- Total banking assets of about $16 billion in 2007: CAGR of 24 per cent over last year
- Liquid and well regulated equity markets
  - o Market capitalization (NSE) of over $1.6 billion on December 2007
  - o Growth in turnover at a CAGR of 24 per cent in 2007
- Mutual funds assets under management of $130 billion in CY 2007; growth of 70 per cent over previous year
  - o 44 venture capital and over 100 private equity funds are in India.
- About 75 per cent of the assets are accounted for by public sector (government-owned) banks; however, rapid growth is being witnessed by foreign banks and Indian private banks as they gain bigger shares.
- The three largest banks in India with over 65 per cent of the total assets of a foreign bank are HSBC, Citibank and Standard Chartered Bank.
- The majority of global players in banking and financial services, such as Calyon, Barclays, ABN Amro, Lehman Brothers, UBS, Deutsche Bank, JP Morgan, Merrill Lynch, Morgan Stanley and Goldman Sachs are active in India.
- Both foreign and domestic firms are a part of the mutual funds industry, such as Tata Mutual Fund, Birla Sun Life Mutual Fund, Franklin Templeton, HDFC, ICICI Prudential and UTI Mutual Fund.

Structure of the Indian Banking Industry

Table 3.2 shows structure of Indian Banking industry.

Table 3.2 *Structure of the Indian Banking Industry*

Classification of Banks (2007)	Number of Banks	Total Assets ($ billion)
Public Sector Banks	28	575
Indian Private Banks	25	175
Foreign Banks	29	48
Total	82	798

Source: RBI

Indian banking industry regulation by government

The Indian banking and financial services industry is regulated by India's central bank, Reserve Bank of India (RBI), which has put in place certain guidelines for adopting Basel II by March 2008. All foreign investment in this sector has to be first approved by RBI. In order to conduct business in India, foreign banks must either set up branches or do so through wholly owned subsidiaries, but only after RBI has approved of the same. Indian private banks may be 74 per cent foreign owned, with a 5 per cent cap on ownership by any one entity.

Future opportunity

The banking sector has the following future opportunities:

- It is expected that the total banking assets will grow to $1 trillion by 2010 – a CAGR of 11 per cent.
- More than $70 billion supplementary equity is required for growth along with Basel II compliance. Private players will probably be the drivers of consolidation in the banking space.
- Mutual funds: It is expected that the Assets Under Management (AUM) will increase by 15 per cent by 2010. Retail finance will escalate at a yearly rate of 18 per cent, from $27.6 billion in 2003–04 to more than $75 billion by 2010.
- It is anticipated that demand for credit will increase at 25 per cent per annum with a swift growth in GDP.

The contribution made by the service sector to the recent growth in India has not received the appreciation that is due to it. It is usual to equate its performance with more remarkable performance of ITES and IT exports. However, one must go beyond this narrow view and see it for what it is. Since 1991, a yearly average growth rate of 9 per has been observed for the tertiary sector. In other words, this means a contribution of 60 per cent to the overall economic growth, which raises its contribution to more than 50 per cent of the GDP. A growth rate of nearly 20 per cent has been observed for the export of services in India, which increases its contribution to world exports to 1.5 per cent, as against the meagre 0.8 per cent contribution of merchandise exports.

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But still, only merchandise trade is discussed by the annual foreign trade policy, which maintains silence on the services trading. This dynamic sector lacks an exclusive Government of India document. It is similarly astonishing that it has taken the Government this long to contemplate a Free Trade Agreement (FTA) in services with the US, and realize the huge benefits that could accrue for both India and the US from such an agreement.

Although it is in the BPO and IT services sector that the growth is most apparent, other service sectors such as hotels and restaurants, community services, financial services and telecommunications too have lately witnessed relatively swifter growth than the GDP. Growth and access to external markets and speed of domestic reforms in this sector are directly correlated, which serves to explain the growth in telecommunications, maritime transport, tourism and IT.

Contrarily, closed sectors such as professional services (rail transport, post, accountancy, legal) and retail have not contributed much to exports and growth. For deriving the maximum possible gain from globalization, India needs to be aggressive in pursuing greater external market access in services, while at the same time, eradicating the obstacles that are imposed on many service sectors.

3.2.3 Knowledge-Based Industries

To an extent, all industries depend on knowledge inputs. But a few of them depend on knowledge more than the others. The term 'knowledge-based industries' is generally said to refer to the industries that are comparatively intensive in their inputs of human capital and/or technology.

The significance of activities that are based on technology has frequently been estimated from the share of high-technology industries in manufacturing. But the focus of this approach is only on the major *producers* of high-technology goods. The other activities that intensively *use* high technology and/or have a comparatively better skilled workforce benefiting from technological advances too must be included. Hence, along with the manufacturing industries that are commonly identified, it is also necessary to include service activities such as communication, insurance and finance here. Such a widely defined group would account for the growth of the Organization for Economic Co-operation and Development (OECD) business value from roughly 45 per cent in the mid-80s to over 50 per cent in the mid-90s. Business, insurance and financial services are responsible for the largest share in all countries. It is in the larger OECD economies that knowledge-based manufacturing industries and services predominate more. Recently, in Japan and the US, growth in services has been outpaced by the growth in medium and high-technology manufacturing. In Europe, the performance of services has been far better. A general level of consistency has been observed in the growth of knowledge-based services in the past few years. The progress of medium and high-technology manufacturing has been rather cyclical. In USA, this group of industries grew at a far slower rate in the period 1988–1993; but since then there has been strong and sustained growth.

Although established methods do exist for the classification of manufacturing industries on the basis of technological intensity, it has been more challenging to capture the right service sector for aiding in the measurement of the effect of knowledge. The major reasons for this are international comparability and limited data availability. Data on the services sector has been provided only at reasonably aggregate levels by most OECD countries for a long time now; their focus has been on providing manufacturing

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data in more detail. Even when broad service sectors are considered, it becomes difficult to group them in a formal manner on the basis of 'knowledge intensity' because of limited information in areas such as skill levels and R&D expenditure. With the increasing interest in the service sector, there has been an improvement in the scenario, yet difficulties continue to exist in the application of a common classification (in this case, International Standard Industrial Classification (ISIC) Rev. 2) for improving comparability. for instance, ISIC Rev. 2 Division 8, though not perfect, is still utilized for capturing business and financial services. But in the case of certain countries such as Japan and Germany, a number of business services are reported under ISIC Rev. 2 Division 9, thus blurring the distinction.

Keeping this in mind, apart from the manufacturing industries that are commonly identified, ISIC Rev. 2 service activities such as personal, social and community services, real estate, insurance, finance and communications too are included. Along with the inclusion of education and health services, a number of services that may not be thought of as knowledge intensive are also included in Division 9, although education and health predominate. This is done so that optimal comparability can be achieved among countries. However, it needs to be kept in mind that though only market services are reported in ISIC Rev. 2 division 9 by a number of countries, certain non-market services are included by a few of them. Nonetheless, there isn't much change in the general picture when this is taken note of. 'Total business sector' refers to ISIC Rev. 2 Divisions 1 to 9.

In the past decade, emerging economies like China, Malaysia, Singapore, and Thailand have grown as important players in the international market for knowledge-intensive industries such as electronic hardware. However, low-technology goods that are slow moving, low value-adding and highly price sensitive continue to dominate India's exports The challenge for India is to strengthen the international competitiveness of knowledge-based industries, and to upgrade the technology profile of her exports.

In their book, *International Competitiveness and Knowledge-based Industries In India,* Nagesh Kumar and K.J. Joseph study the international competitiveness of India's exports through an empirical analysis covering a sample of more than 4,000 enterprises. A detailed study of five key knowledge-based industries – non-electrical machinery, automotive, chemical, pharmaceuticals and electronics – provides an in-depth coverage of the issue. The focus is on corporate strategies such as scale of operations, technological dynamism, multinational affiliation, and outward investments.

The volume advocates a strategic approach to enhance export competitiveness of enterprises in India and outlines policy lessons for the government, industry bodies, and enterprises. It remains of interest to policymakers, industry specialists, analysts, researchers, and students of industrial economies and development studies.

Check Your Progress

1. Name the diverse sectors that together comprise the tertiary sector.
2. State the results of the survey that was conducted by the Ministry of Communication and Information Technology.
3. What is the contribution made by private and foreign banks in India?

3.3 BUSINESS OPPORTUNITY IDENTIFICATION AND SELECTION

According to David H. Holt, 'Business opportunity is defined as the identification of a gap in "need" and the likelihood that if a product were developed to fill that need, it would also be "wanted" (i.e. there would be effective consumer demand). This idea may be born of entrepreneurial insight, creative mind-mapping, or accidentally stumbling upon an idea through a corridor of related activity.'

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Opportunities, according to Drucker, are of three kinds: (i) Additive (ii) Complementary and (iii) Breakthrough. Additive opportunities are those which enable the decision-maker to better utilize the existing resources without in any way involving a change in the character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. Complementary opportunities involve the introduction of new ideas and as such do lead to a certain amount of change in the existing structure. Breakthrough opportunities, on the other hand involve fundamental changes in both the structure and character of business. These opportunities involve minimum disturbance to the existing state of affairs and hence the least risk. The element of risk is greater in the case of complementary opportunities and is greatest in the case of breakthrough opportunities. As the element of risk increases, it becomes more important to precisely define the scope and nature of the project objectives and to select the best possible approach so as to minimize both resource consumption and risks and to optimize the return or gains.

In free-enterprise systems, markets for new services and products emerge from the needs and wants of consumers. Opportunities are identified by entrepreneurs on the basis of both needs and wants. For instance, it was recognized by furniture maker Paul Bush that there was a need for some base that electronic products could sit on – desks customized for holding microcomputer workstations, VCR cabinets and TV stands were required by home consumers. Therefore, heavy investment was made by Bush in market research, as a result of which it came to light that similar products that already existed in the market wee ugly and flimsy. It was also discovered by him that there were only a few firms that manufactured computer workstations, and there was a wide gap between functional metal desks (altered typewriter stands) and trendy office furniture designed specially for PCs and word processors. Bush made optimum use of this opportunity and came up with his line of products to cater to this requirement. The observant mind continuously comes across situations which can be utilized to develop investment opportunities. The observation may be made during the course of one's routine occupation or otherwise.

Similarly, containerized shipping and sea vans emerged as a result of lack of low-cost global freight coupled with the necessity for prompt on-shore handling. According to Peter Drucker, prior to the evolution of container systems, American shipping had been close to disintegrating. Although cargo ships were not inefficient, the entire shipping system was not very profitable given that the actual transoceanic transport did not incur the high cost that dockside handling and storage incurred. Simple metal containers would result in integrated systems of storing and moving cargo on trucks, railcars and ships. A similar case in point is the plastic templates that are slipped over computer keyboards that enable quick reference to keyboard functions. Such a template provides the user of the compute information at the fingertips on the functions performed by the various keys for the different software applications. Such opportunity gaps provide useful knowledge. A number of exciting applications have been created by software developers such as computer sided designing and word processing. However, it becomes slightly difficult for new users to learn how to use the application as they have to wade through huge manuals written by engineers. This task is made easier by the plastic templates as they make systems more user 'friendly', and at the same time are not very expensive to manufacture because they are actually only printed plastic sheets.

Identifying and evaluating opportunities are not easy tasks. The majority of good business opportunities do not emerge suddenly out of the blue; they are actually a consequence of an entrepreneur being alert to the possibilities that might arise, and in a few instances, the consequence of establishing some mechanism for identifying prospective opportunities. For instance, at all the cocktail parties that they attend, entrepreneurs ask the guests whether there were any people using products that did not quite satisfy the purpose they were meant for. They continuously look for needs and corresponding opportunities for creating better products. Similarly, some other entrepreneurs constantly monitor the toys and recreational habits of their nephews and nieces and come up with some unique toys or some new ventures for the same.

Though the majority of entrepreneurs lack a formal mechanism that identifies business opportunities, certain sources usually prove to be more useful than others, such as technical people, members of distribution systems and business associates. Quite frequently, consumers prove to be the best source of ideas for novel ventures. A casual comment such as 'If only there was a product that would…..' can result in a novel business idea. The manner in which a certain entrepreneur evaluates the reason behind the complaints of numerous business executives regarding inadequate word processing and technical writing skills can result in a novel business venture being established for fulfilling this lack. Product needs can be identified effectively by the distribution channel members, because of their close contact with end users of the product. For example, a college bookstore was started by an entrepreneur following his evaluating of students' complaints that the books available at the existing college bookstore were highly priced and the service itself was not up to the mark. Numerous business opportunities have been recognized by entrepreneurs following discussions with wholesalers, retailers and representatives of manufacturers.

Business opportunities are frequently conceptualized by people with technical orientation while they work on other assignments; for example, the one entrepreneur observed the application of a plastic resin compound casket molding and came up with the idea of applying the same to the development and manufacture of certain types of pallets.

3.3.1 Criteria for Selecting a Particular Business Opportunity

Following the identification of an opportunity, by any means, whether through inputs received from technical people, channel members, business associates, or consumers, careful screening and evaluation of it are required. Evaluating the business opportunity is perhaps the most crucial aspect of the entrepreneurial process because it assists entrepreneurs in assessing whether the particular service or product provides sufficient returns in comparison to the resources needed. Such a process of evaluation takes into account the duration of the opportunity, the returns and risks involved as well as the idea's real and perceived value. It also involves considering whether it corresponds to the entrepreneur's goals and skills, as well as the distinctness or differential advantage that it enjoys in its competitive environment. After gathering a large number of business opportunities, the entrepreneur should consider the following criteria for selecting a particular business opportunity.

1. *Investment size*: Capital requirement and the risk aspect and gestation period of the project influence the evaluation process. Professional managers, who have worked in multinational companies or large Indian companies, should think of starting medium-sized or large-sized units only. The investment size (project cost) should be between Rs 3 and Rs 5 crore. They should not make the common mistake of restricting the project size to less than Rs 2 crore. In fact, under the present circumstance, it will be much easier to get projects cleared by the all-India institutions, requiring even less contribution from the promoter.

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Check Your Progress

4. Define 'business opportunity'.
5. What is India's position in the manufacturing sector when compared with China?
6. Describe the services sector in India.

2. *Location*: This is the second influencing factor in the selection criteria of the project. The theories suggest that projects should be located close to human resources and raw material availability. A new entrepreneur should locate his project in and around the state headquarters. There are many backward areas around such cities. It is necessary to be located in such a place where entrepreneurs can attract competent managers. This will also facilitate liaison with the State Electricity Board, State Industrial Development Corporation and various other agencies.
3. *Technology*: What type of technology is required? Should it be indigenous or foreign collaboration? Is the required skilled manpower readily available in the job market? These questions are answered in the next stage of the selection process of project. The first project should not be for a product which requires high technology, necessitating foreign technical collaboration. It is better to go in for a product with proven technology that is indigenously available. It makes life easier to begin with.
4. *Equipment*: The quality of a product not only depends on the raw material that the entrepreneur uses but also on the quality of equipment that he uses in the manufacturing process. The entrepreneur should select the best equipment as advised by experienced technical consultants. He should not compromise on the quality of the equipment. Many entrepreneurs enter into some sort of a deal with the equipment manufactures for a 'kick-back' and in the process sacrifice quality. One should not be short-sighted and come to grief by going in for poor quality equipment.
5. *Marketing*: The market size and opportunity of product or service have to be investigated with the help of Market Survey and Assessment Research Reports. It is not advisable to get into a project, particularly the first, which would mean survival amidst cut-throat competition involving direct selling to the ultimate consumer. One should go in for products with a limited number (say 10 to 20) of industrial customers.

An opportunity assessment plan is also inclusive of the source of capital for financing the initial venture and its growth, the resources required for translating the opportunity into a practical business enterprise venture, specifications of all the activities, an assessment of the entrepreneur and the team and descriptions of the service or product. In order to assess the opportunity, the following questions need to be addressed:

- What market need is fulfilled by it?
- What personal observations have been recorded or experienced in terms of market need?
- What are the social condition underlying this market need?
- What market research data needs to be marshaled for describing this market need?
- What are the patents that might be available for fulfilling this need?
- What does the internal competition look like?
- What does the international market look like?
- Where can money be made in this activity?
- What technological requirements need to be fulfilled?
- What environmental and licensing requirements need to be fulfilled?

3.4 SUMMARY

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Competition has also opened up opportunities for aspiring entrepreneurs in various sectors such as electronics, communication, food technology, packaging, floriculture, cane/wood craft, textile, pharmaceuticals, transportation, tourism and hospitality, toy, gems and jewellery. Entrepreneurs have to realize that quality is important for success in the export business. With emphasis being laid on technology and clean environment, many more opportunities will emerge for Indian entrepreneurs. Entrepreneurs have opportunities in the fields of manufacturing, services and knowledge-based industries, provided they have knowledge the present trends in capital investment and security measures for investment.

Business opportunities may be defined as identifying a gap in terms of 'need' and the possibility of the product that is developed for fulfilling this need being 'wanted' (in other words, there would effectively be some consumer demand). There are various ways to identify the business; among them an individual's working knowledge rates high. The criteria of selection of an idea are based on the size of investment, location, technology, equipment and market.

3.5 KEY TERMS

- **Business opportunity:** It is the identification of a gap in 'need' and the likelihood that if a product were developed to fulfill that need, it would also be 'wanted', i.e., there would be effective consumer demand.
- **Opportunity assessment:** It is a critical process in which the sales team determines where to invest the capital and make best possible profit from.

3.6 ANSWERS TO 'CHECK YOUR PROGRESS'

1. The diverse sectors that together comprise the tertiary sector are as follows:
   - Community services
   - Personal services
   - Public administration and defence
   - Business services
   - Dwellings and real estate
   - Insurance
   - Banking
   - Communication (post, telecom)
   - Transport and storage
   - Railways
   - Hotels and restaurants
   - Trade
   - Other services
2. The Ministry of Communication and Information Technology in New Delhi conducted a survey on telecommunication sector opportunities in India. The survey results showed that the telecommunication sector had grown phenomenally in the

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past three years. The telecom sector is one of the leading contributors to India's flourishing economy. The report of the ministry states that telecom opportunities in India have been growing at the rate of 20 to 40 per cent every year.

3. The contribution of private and foreign banks in India can be summed up as follows:
   - The three largest banks in India with over 65 per cent of the total assets of a foreign bank are HSBC, Citibank and Standard Chartered Bank.
   - The majority of global players in banking and financial services, such as Calyon, Barclays, ABN Amro, Lehman Brothers, UBS, Deutsche Bank, JP Morgan, Merrill Lynch, Morgan Stanley and Goldman Sachs are active in India.
   - Both foreign and domestic firms are a part of the mutual funds industry such as Tata Mutual Fund, Birla Sun Life Mutual Fund, Franklin Templeton, HDFC, ICICI Prudential and UTI Mutual Fund.
4. A 'business opportunity' may be defined as identifying a gap in terms of 'need' and the possibility of the product that is developed for fulfilling this need being 'wanted' (in other words, there would effectively be some consumer demand). Such ideas may arise from accidentally stumbling upon ideas by means of related activities, creative mind-mapping or simply through entrepreneurial insight.
5. The Indian manufacturing base is ranked fourth in the list of the largest manufacturing bases in emerging economies and is one of the fastest growing manufacturing bases. Its level of investment as a proportion of the GDP is exceeded only by China.
6. Nearly half of India's GDP comes from the services sector. It is evident from data for the financial year 2006–07 that the agricultural, industrial and tertiary (services) sectors in India contribute 18.5, 26.4 and 55.1 per cent respectively to the GDP. This contribution of the services sector constitutes an extremely significant event in the evolution of the economy in India and is instrumental is taking it closer to a developed economy. The services sector includes a broad range of activities such as covers a wide gamut of activities such as technical consultancy, management, security, transportation, real estate, infotainment, banking and finance and trading.

3.7 QUESTIONS AND EXERCISES

Short-Answer Questions

1. Which sector is the largest employer in India? Give data to support your answer.
2. What are the various features and future forecast of India's IT sector?
3. Give the main features of the Indian banking sector.
4. How does Drucker classify opportunities? What is free-enterprise system?

Long-Answer Questions

1. Describe entrepreneurial opportunities in the manufacturing sector.
2. Analyse the entrepreneurial opportunities in the services sector.
3. Explain the entrepreneurial opportunities in knowledge-based industries.
4. Describe the process of business opportunity identification and the criteria for evaluation of opportunities.

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UNIT 4 PREPARING A BUSINESS PLAN

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Structure

4.0 INTRODUCTION

Business plans are a crucial component of management and financial institutions. These are instrumental in establishing the objectives and goals of a financial institution. They summarize the manner in which the resources of the business will be organized and how progress will be measured. Appraisal of a business plan refers to the critical assessment of a business. In other words, it evaluates the business on its various functions such as marketing, finance, human resources and production. Based on the feasibility analysis of each, it provides information to all the concerned people, such as employees, venture capitalists, etc. It also draws a road map to help the entrepreneur run his business successfully.

In this unit, you will study about the various types of business plans and their significance in running businesses successfully.

4.1 UNIT OBJECTIVES

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

- Understand the meaning and significance of a business plan
- Know the components of a business plan
- Explain the content of a business plan

4.2 MEANING AND SIGNIFICANCE OF A BUSINESS PLAN

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The business plan must be comprehensive. The management and organizers of the institution must carry out in-depth planning and then prepare the business plan. Economic conditions, competition, customer base and market demand must be accurately forecasted by a business plan. Sound banking principles must be reflected in the plan along with a demonstration of realistic risk evaluation in the face of competitive and economic conditions in the target market.

The chief argument in favour of preparing a business plan is that it convinces the entrepreneur that his dream or idea can be turned into a real operating business enterprise. The entrepreneur must refrain from trying to sell his plan unless he is satisfied that it 'makes sense'. Only after being fully convinced that the idea will work should it be shown to prospective investors and lenders. Business plans are not 'one-time' documents meant only to obtain finance or attract investors. They are 'living' documents in the sense that they need to be updated and upgraded from time and again as circumstances vary and corresponding alterations have to be made to the business.

Unless a person has enough funds for investing in his business, a business plan is needed for convincing investors and lenders that the business is worth investing in. The business plan can also function as a blueprint for the business. The methods of preparing a business plan have seen several changes. In the modern era, the Internet (for example, such services are offered by Planigent) has become a big source for aspiring entrepreneurs to prepare their business plans.

Institutions with particular purposes or aims (such as bankers' banks, cash management, trust only or credit cards) must discuss that particular distinct or special feature in a detailed manner in the suitable section of the plan. Three years must be covered in the business plan, which must explain in detail the activities that the entrepreneur proposes to engage in for accomplishing the enterprise's chief functions. It must be demonstrated in the description that the enterprise has sufficient capital for supporting the risk profile, it can operate safely and that it stands a fair chance of success. All institutions that make use of the Internet or alternative electronic delivery channels, the market that will be served by the enterprise and the services and products that will be offered via the electronic channels must be clearly defined in the plan. Given that a global market exists for the Internet and it can reach everyone with access to the Net, selected details regarding services and products and market are vital. The manner in which brand recognition will be attained by the enterprise should be explained in the marketing plan.

The business plan serves the following purposes:

1. Under many crucial aspects of the venture, business plan ensures that the entrepreneur will do the business in a thoughtful manner.
2. Business plan allows the entrepreneur to embed his goals into the objectives and achieve them in a logical and structured manner.
3. The entrepreneur can plot his progress vis-à-vis the plan.
4. Business plan can identify the time and financial requirements of the business.
5. Assuming that the key features of business plan are communicated to the employees, the plan is a means to make them cognizant of the direction the business proposes to take.

6. In case the aim of the management is turning around a business or starting a new stage of growth, business plans becomes a significant instrument of articulating its ideas even as investors and other people are convinced to support it.
7. It serves as a vital document to be used in discussions with potential lenders and investors of funds such as venture capitalists and banks.
8. It links the detailed, short-term and annual budgets.

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Therefore, the business plan should provide a complete framework for the presentation of all information that would be required by financial institutions for appraising the business. It would also enable the entrepreneur to know how much money, material and manpower would be required to set up the business Thus, a business report for an entrepreneur is very similar to a guide map for a traveller.

The actual worth of the creation of a business plan lies in systematically researching and thinking about one's business instead of having the finished product in hand. The act of planning aids an entrepreneur thinking things through, studying and researching, and looking at his schemes from a critical perspective. Although this is time consuming, it is nevertheless useful in avoiding expensive and maybe even catastrophic blunders later.

It serves as a general model that suits every type of business. But it needs to be modified by every entrepreneur in keeping with his specific circumstance. As such, certain areas are emphasized in the business plan according to the type of business (service, retail, manufacturing, etc.) that is undertaken. It further offers some tips to enable the entrepreneur to fine-tune his plan so that an effective presentation can be made to the bankers or investors. If this is the objective behind the creation of the plan then special attention needs to be paid by the entrepreneur to the style of writing. It is both his ideas as well as the appearance and quality of his work that are the criteria for judgement.

Usually, several weeks are required for a good plan to be completed. The majority of that time is expended in researching and re-thinking one's assumptions and ideas, which is where the real worth of the process lies. In addition, the entrepreneur should take and preserve detailed notes on the assumptions that underlie his financial data as well as his sources of information.

4.3 COMPONENTS OF A BUSINESS PLAN

Figure 4.1 portrays the components of a business plan.

The components of a business plan are as follows:

1. Estimation
2. Projections
3. Information
4. Calculations
5. Documentation

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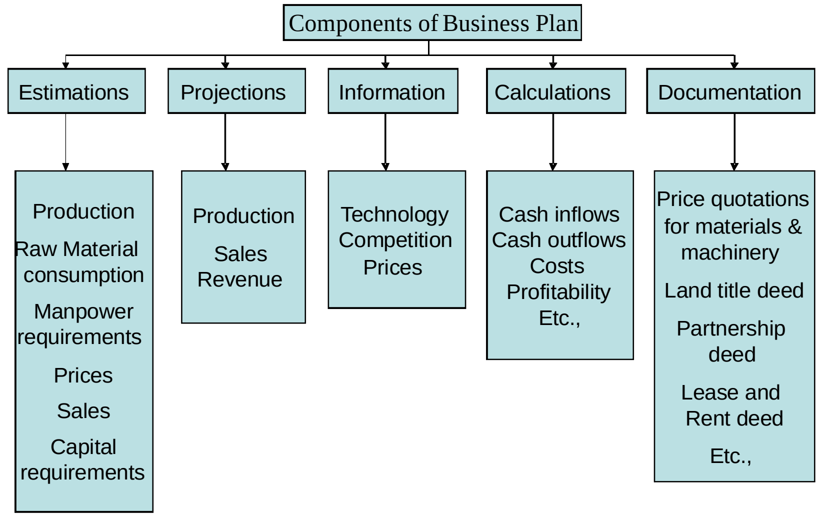

Fig. 4.1 *Components of a Business Plan*

A business plan should estimate the production demand, raw material consumption, manpower requirements and capital requirements in terms of value of money. It should also estimate the prices of product and sales. The plan has to project the cost of production and sales revenue to determine the feasibility of the plan. Adequate information regarding technology, competition and prices must be available so as to adopt the suitable technology based on the competitive products technology, investment ability of company and pricing of technology. An organization works with the motive of making profits. The business plan has a component about the cash inflow, cash outflow, cost of product and profitability. A study of all these is essential for an entrepreneur to have an understanding about the safety of his investment. Apart from this, a business plan should concentrate on the flow of work in the organization by making proper documentation on price quotations for materials and machinery, land title deed, lease and rent deed and it should also stress on the legal aspects related to business such as partnerships. According to Partnership Act, 1932, a partnership deed should be prepared and registered. The components of a business plan guide the preparation of a comprehensive plan.

4.4 CONTENTS OF A BUSINESS PLAN

A business plan may be prepared in different ways by different entrepreneurs. There is no standard pattern for it. However, it must contain all information necessary to appraise it and for lending institutions to take a financial decision. The amount of information to be furnished in the report depends upon the size of the unit, the nature of production and the amount of finance required. The Planning Commission of India has issued certain guidelines for formulating a business plan for industrial concerns. These guidelines are more or less similar to the one which we are going to discuss now. However, the various headings of those guidelines are as follows:

1. General information
2. Preliminary analysis of alternatives
3. Project description
4. Marketing plan
5. Capital requirements and costs

Check Your Progress

1. What is a business plan and what is the reason behind its preparation?
2. Describe the components of a business plan.

6. Operating requirements and costs
7. Financial analysis
8. Economic analysis

The following guidelines will help an entrepreneur to prepare a business plan for the establishment of a small-scale unit. The relevant information should be given under the following heads:

1. General company description
2. Products and services
3. Marketing plan
4. Operational plan
5. Management and organization
6. Personal financial statement
7. Startup expenses and capitalization
8. Financial plan
9. Economic and social considerations

A business plan starts with the owner's particulars such as address and phone numbers and an executive summary, which explains the fundamental aspects of the business, such as what the product is, who the customers are, who the owners are, what can be the future potential of the industry in general and the business in particular and so on. It should be concise, complete, professional and enthusiastic. If a loan is being applied for, the amount that is required should be clearly stated along with a description of how the entrepreneur plans on using it and how the loan amount can aid in making the business more profitable and consequently ensure that the money will be repaid.

4.4.1 General Company Description

To start with, some basic information should be provided. This includes:

- Questions such as 'What will I do?' and 'What business will I be in? should be asked and answered by the entrepreneur.
- **Mission statement:** A number of businesses usually add a short mission statement of about thirty words to the plan, which explains the principles that are intended to guide the business and the very reason behind the existence of the business. In case an entrepreneur wants to have a mission statement drafted, this is where it can be inserted in the plan.
- **Company goals and objectives:** The mission statement is followed by a list of company objectives and goals. Goals specify the destination that the entrepreneur aspires to reach and objectives mark the progress along the way. For instance, if the goal is to have a successful and healthy organization that is the best in customer service and is assured of a loyal customer base, the objective would be certain customer satisfaction measures and the annual sales figures.
- **Business philosophy:** It is the aspect, which is given the maximum importance by the entrepreneur in the business.

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- **Whom will the entrepreneur's products be marketed to:** (This is stated briefly here, as it will be explained in a more detailed manner in the section on Marketing Plan).
- **Description of the industry:** Is it a growth industry? What changes does the entrepreneur foresee in the industry, both-short-term and long-term? How will the company be poised to take advantage of them?
- **Description of the most significant strengths and core competencies of the company:** What kind of strengths, skills, experience and background are personally brought by the entrepreneur to this new project? What will be the business' major competitive strengths? What are the factors that could lead the company to success?
- **Legal form of ownership:** Is the company a Limited Liability Corporation (LLC) a corporation, a partnership or a sole proprietor firm? Why was this particular form selected by the entrepreneur?
- **Personal profile of the entrepreneur:** It includes the entrepreneur's name and address as well as his capabilities, experience and qualification.

4.4.2 Products and Services

In this section of the business plan, the entrepreneur projects his ideas about the products or services that he is going to launch and why he has chosen them. This section does not focus on the unique features and benefits of each product or service. These are assessed in the section on 'Market Plan'. The following are the key areas to study:

- The entrepreneur describes his services or products (bulky items such as sales brochures, photographs, drawings and technical specifications are given in the Appendix).
- He states the factors that are likely to offer him some competitive advantage or disadvantage such as some distinct or proprietary feature, the level of quality and so on.
- He states the leasing structures, the fee or the pricing of his services and products.

4.4.3 Marketing Plan

A marketing plan helps an entrepreneur answer the questions such as How to market his products or services? Why a marketing plan? How does one make a marketing plan? Answers to these questions are provided in this section.

Regardless of how good one's products or services are, the project cannot meet with success in the absence of effective marketing, and the entrepreneur must begin this process by carefully and systematically researching the market. It is foolhardiness to assume that an entrepreneur already has adequate knowledge of his intended market. Market research needs to be conducted by the entrepreneur for ensuring that he is on the right track. He can utilize the process of business planning for obtaining data and planning his marketing endeavours.

Market research can be of two kinds: primary and secondary. The former refers to the collection of one's own data. For instance, doing one's own traffic count at a planned site, using the yellow pages for identifying competitors and conducting focus-group interviews or surveys for obtaining information regarding consumer preferences. Professional market research can be a rather expensive affair; however, a number of

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books are available on how owners of small businesses can conduct effective research themselves. Small business aspirants can meet fellow entrepreneurs, a customers or suppliers and give questionnaires to them to seek the required information to launch a business.

Secondary research refers to the use of published information such as demographic profiles, census data, magazines, newspapers, trade journals and industry profiles. Such information can be obtained from government agencies, vendors to the proposed type of industry, chambers of commerce, industry associations and public libraries. .

An entrepreneur can start at the local library and review its business data collection. There are innumerable online sources that can also be used. A chamber of commerce can provide good local area information. Trade publications frequently provide superior industry-specific data.

It is necessary for the entrepreneur to be as specific as possible in the marketing plan and provide sources, numbers and statistics. This is important as, at a later date, crucial sales projections will be based on the marketing plan. In case he is an existing entrepreneur and wants to enlarge or diversify the following must also be included in the business plan under the Marketing Plan section.

Economics

In this section, the entrepreneur makes an assessment of the economic activity of the existing company and furnishes facts about his industry.

He considers the following issues:

- Total size of the market, the geographical area that is covered and the quantity of sales
- Percentage of market share that he will have (this assumes importance only if he expects to be a key force in the market.)
- Current demand in the target market. In other words, the quality and quantity that the target customer expects from the entrepreneur with regard to the product
- Trends in the target market such as product development, consumer preferences and growth trends
- Opportunities and growth potential for his size of business
- Hurdles that might be faced by the firm when it enters a market are location problems (problems in acquiring the prime area in the market for services), quotas and tariff barriers, shipping costs, unions, distinct technologies and patents, skills and training, brand recognition and consumer acceptance high marketing, production and high capital costs.
- The manner in which these hurdles can be overcome by means of some constructive scheme or plan
- The manner in which the company may be affected by alterations in the industry, economy, government regulations or technology

Analysis of unique features and benefits of products and services

In the section on services and products, the services and products had been described from the point of view of the entrepreneur. Here, these are explained from the perspective

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of customers. The intention of this exercise is to identify the important and unique features of his products or services.

Features and benefits: The entrepreneur lists all his key services and products.

- The most significant features are described along with an explanation of what is so special about them.
- The benefits are described in addition to an explanation of what the product is expected to do for the customer.

The entrepreneur describes the after-sales services that he will provide such as refunds, follow-ups, service contracts, warranties and deliveries.

Customers

The customer section includes customer details in terms of geographic and demographic factors and focuses on customer profile in order to build customer loyalty.

The targeted customers are identified by the entrepreneur along with their geographic locations and characteristics (this is called demographics). Based on whether the target customers are direct consumers or other businesses, the descriptions are likely to be absolutely different. If a consumer product is to be sold via retailers, wholesalers or distribution channels, both the middleman as well as the end consumer need to be analysed. There may be more than one customer groups in such a case, the most important groups need to be identified. Following this, a demographic profile has to be constructed for every consumer group, consisting of education, occupation, social class, level of income, location, gender, age and other details pertaining to his industry. Similarly, in the case of business customers, the demographic factors could include price preferences, technology, quality, size of the company, location, industry and other details pertaining to his industry.

Competition

Under this section, complete competitor strategy and competitive analysis have to be made to learn about competitive products and competitors' strengths, weaknesses, opportunities and threats. These include:

- The firms and products that may prove to be competition for the entrepreneur
- The names and addresses of key competitors
- Knowledge whether they are expected to compete only for specific locations, customers and products, or across the board
- Knowledge whether there is likely to be significant indirect competition (e.g., the competition between theatres and video rental stores, even though they engage in different types of business)
- Knowledge of how his services or products are likely to compare with those of competitors

The competitive analysis format shown in Table 4.1 can be used by the entrepreneur for comparing his firm with his two most significant rivals. The major competitive factors are listed in the first column. Since there is variation among them across the industry, this list of factors may be customized.

In the column labelled **Me**, an honest evaluation of how the entrepreneur thinks he might be received in the customers' mind is stated. He then checks whether this factor would prove to be a weakness or strength for him. At times, it may be difficult

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to analyse one's own weaknesses. Honesty is important here. In fact, an unbiased third person might make a better assessment of you. The entrepreneur must understand that he cannot be all things to all people. Actually, such an attempt could lead to failure in business as efforts could get diluted and scattered. The entrepreneur should prefer an honest evaluation of his company's strengths and weaknesses.

The next step is to analyse every significant rival he has. His analysis of how they compare to his firm is briefly stated by him.

In the last column, an estimate of the significance that every competitive factor holds for the customer is given. 1 = *critical*; 5 = *not very important*.

Table 4.1 *Competitive Analysis*

Factor	Me	Strength	Weakness	Competitor A	Competitor B	Importance to Customer
Products						
Price						
Quality						
Selection						
Service						
Reliability						
Stability						
Expertise						
Company Reputation						
Location						
Appearance						
Sales Method						
Credit Policies						
Advertising						
Image						

Activity

Assume that you are the owner of an enterprise dealing with: (i) Manufacturing sanitary items, (ii) Manufacturing paints and (iii) Financial services. Briefly discuss your competitive advantages and disadvantages in each case.

Niche

Under this section, the entrepreneur studies his product's unique position in the market.

Following the systematic analysis of the industry, competition, customers and products, a clear picture should emerge about where the firm stands. A short description of his definition of his unique position—his niche—should be provided. Following this, a strategy that is consistent with this niche is formulated.

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Promotion

In this section, the plan describes how the entrepreneur plans on communicating his presence to the customers.

Advertizing: Questions such as what media is to be chosen, how often and why, why has this particular mix been chosen instead of some other mix, have low-cost methods been identified for getting the most out of the promotional budget, will methods other than paid advertising (e.g., word-of-mouth, dealer incentives, catalogues, trade shows, etc.) be used, what kind of image does the entrepreneur wish to present and how does he expect the customer to view him are considered. Additionally, the entrepreneur must look into options for graphic image support, including interior designing (only in cases where customers visit his place of business), signage, brochures, letterheads, cards, logos, etc. He must also consider whether some system should be installed for identifying repeat customers so that they can be systematically contacted.

Promotional Budget: Here, the amount that can be spent on the items discussed above is considered, prior to starting up (which will be included in the start-up budget) as well as when the business operations are being carried out (which will be included in his operating plan budget).

Pricing

Under this section, the methods for fixing the price are explained. With the majority of small businesses, the lowest price may not necessarily be the best policy as it may reduce the profit margin and customers might not be bothered with the price. In any case, they may be under-priced by larger rival firms. Generally, average prices, coupled with a competitive level of quality, are preferable. It is also necessary to consider whether the pricing strategy fits in with what the competitive analysis had revealed. Further, the prices need to be compared with those of rivals and some analysis needs to be done regarding whether they are higher/lower, and if so, then why. The entrepreneur must also examine the degree of importance of price as a competitive factor to see whether customer buying decisions are really affected by the price, and if so, then to what extent. In addition, he must look into the credit policies and customer services that he wishes to provide.

Proposed location

The entrepreneur may not have decided on an exact location yet for setting up his business enterprise. This is the point at which he must think about what exactly is required from the location. Numerous start-up ventures can be successfully run from homes, at least temporarily. The physical requirements can be discussed later in the section on the operational plan. At this point, the criteria that need to be taken into account for choosing a location are analysed in terms of their effect on the consumers. The following questions may be considered for this task:

- Does the location carry any significance from the consumer’s perspective? How so?
- Is the location convenient enough for customers to visit? Are interior spaces and parking spaces adequate? Is it accessible enough?
- Is the location consistent with the company’s image?
- Does it satisfy what is wanted and expected by the customers?

- Where are the competitor's situated? Would it be better to stay close to them (e.g., fast food restaurants or car dealers) or would maintaining some distance be better (e.g., convenience food stores)?

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Distribution channels

This section focuses on product distribution in the market. Following are the different elements of distribution channel. The entrepreneur will have to adopt some of them. How are the services and products to be sold – through bids on contracts, independent representatives, agents, the sales force owned by the entrepreneur himself, agents, catalogues, the Web, mail orders, wholesalers or retailers?

Sales forecast

Having given a detailed description of the marketing plan, the market, customers, services and products, the next step has to do with inserting some statistical figures into the plan. A sales forecast spreadsheet can be used for preparing a monthly projection. Industry data (if available), the marketing strategies presented earlier in the plan as well as the company's history of sales should form the basis of this forecast.

Two forecasts may be required: a 'best guess', which is what is actually expected; and a 'worst case' scenario, which is an estimation of the target that can be reached, regardless of what may happen.

It is important for notes to be kept on the assumptions and research that goes into forecasting the sales and all the successive spreadsheets in the plan as this may have to be presented to potential funding sources.

4.4.4 Operational Plan

Here, the day-to-day operations of the company are explained such as details about the environment around the company, data regarding processes as well as employees, the equipment being used, the location and so on.

Production

Under this segment, the entrepreneur explains the methods of production and the location of the production plant.

Methods of production process

The methods of production process are as follows:

- Product development
- Inventory control
- Customer service
- Quality control
- Production techniques and costs

Location

Plant or factory location plays an important role in terms of nearest raw material available point, labour availability and communication and transportation availability.

This section deals with the following study: What are an entrepreneur's requirements while selecting a location?

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Physical requirements are as follows:

- Power and other utilities
- Zoning
- Type of building
- Amount of space

Access

Is it significant for the location to be conveniently accessible for suppliers? Does it have to be within walking distance? What is required in terms of parking and nearness to shipping centres, railways, airports and freeways? A layout or drawing of the proposed facility should be included, if required (as in the case of a manufacturer), in the plan.

Construction

The majority of new enterprises must refrain from sinking their capital into construction; however, if some building work is planned, the specifications and costs must form a significant segment of the plan.

Cost

Occupation expenses such as the initial remodelling cost required for making the space suitable for his needs, insurance, utilities, maintenance costs and rent should be estimated by the entrepreneur on the basis of the business hours, which will then form a segment of his financial plan.

Legal environment

The legal environment includes the following:

- Patents, copyrights or trademarks (purchased, existing or pending)
- Insurance coverage
- Building code or zoning requirements
- Special regulations covering the entrepreneur's profession or industry
- Environmental, workplace and health regulations
- Permits
- Bonding and licensing requirements

Personnel

The personnel aspects include the following:

- The use of contract workers apart from employees
- The preparation of written procedures and schedules
- Drafting job descriptions for employees; adequate time should be taken by the entrepreneur in writing these because they can aid in internal communication with employees
- The assignment of tasks to different employees
- Training requirements and techniques
- Pay structure

- Quality of existing staff
- Where and how can the right employees be found
- Type of labour (professional, unskilled, skilled)
- Number of employees

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Inventory

Inventory management is an art and in this customized and competitive environment, maintaining adequate inventory requires prioritization. In this section, the entrepreneur studies and describes the following:

- Lead-time for ordering
- Seasonal build-ups
- Rate of turnover and how this compares to industry averages
- The investment made in inventory, or the average value of the stock
- The type of inventory that needs to be kept (finished goods, supplies, raw material)

Suppliers

Here, the entrepreneur identifies the key suppliers. To avoid the breakdown of production, a minimum number of suppliers is required. The following information is provided:

- Are supply costs fluctuating or stable? In case they are fluctuating, how how will the shifting costs be dealt with?
- Are short-term delivery problems or shortages expected?
- Should there be multiple suppliers for crucial items (as a backup measure)?
- History and reliability of suppliers
- Credit and delivery policies
- Type and amount of inventory furnished
- Names and addresses of suppliers

Credit policies

In this section, the entrepreneur has to answer the following:

- Does he intend to allow credit sales?
- Is there really a requirement for selling on credit? Is it a usual practice in the industry and as such anticipated by clients?
- If so, what does he expect the policies to be in terms of the amount of credit to be extended and to whom?
- How is the creditworthiness of new clients to be checked?
- What are the terms that are proposed to be offered to the clients, i.e., the amount of credit and the due date for repayment?
- Will prompt payment discounts be offered? (This may be done in keeping with the industry practice)
- What would the cost of extending credit be for the entrepreneur himself? Has this cost already been built into the price?

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Managing the accounts receivable

If credit is extended by the entrepreneur, an aging should be at least on a monthly basis for checking the amount that is tied up in credit so that he can be alerted to problems of slow payments. A receivables ageing looks like the following table:

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Receivable Ageing						

Some policy is required to deal with customers who delay payments. The following questions may be considered:

- When should a phone call be made?
- When is a letter to be sent?
- When must a lawyer enter into the fray?

Managing the accounts payable

The accounts payable, that is, what is owed to suppliers, also need to be aged as it assists in planning who has to be paid and when. The payment cannot be made very early as that would reduce the cash available and it cannot be made very late as that would affect the discount he might get and also adversely affect his credit standing. In case the payment is to be delayed for certain reasons, the creditor must be informed prior to the due date. He must also keep asking whether any prompt payment discount will be offered by his proposed vendors.

The following table shows what a payables ageing looks like:

	Total	Current	30 Days	60 Days	90 Days	Over 90 Days
Accounts Payable Ageing						

4.4.5 Management and Organization

Who will take care of the daily operations of the business? What kind of experience is brought by this person to the business? What distinctive or unique competencies are possessed by him? Are there any plans for continuing the business in the event of this person's loss or incapacitation?

If there are more than ten employees, an organizational chart should be created that shows the management hierarchy and clearly defines who holds the responsibility for each major function. Descriptions of the positions held by the employees too may be given. If loans are being sought, résumés of the key employees and owners should be attached.

Professional and advisory support

The following have to be listed by the entrepreneur:

- Mentors and key advisors
- Consultant(s)
- Banker
- Insurance agent
- Accountant
- Attorney
- Management advisory board
- Board of directors

4.4.6 Personal Financial Statement

Personal financial statements must be included for all the owners and key stockholders, which show their personal net worth as well as the liabilities and assets held outside the business. Owners may at times be required to draw on personal assets for financing the business, and these statements would clarify what is available. It is usual for investors and bankers to ask for such details.

4.4.7 Start-up Expenses and Capitalization

There may be numerous start-up expenditures prior to the commencement of business operations. Therefore, these expenditures must be accurately estimated sources for acquiring the capital planned. A business plan can be seen a research project in which greater the thoroughness of the research, lesser is the probability of leaving out significant expenditures and underestimating them. However, even with the best research, starting new businesses can cost more that what is anticipated. Surprise expenditures can be dealt with in two ways: a little 'padding' may be added to all the items in the budget (in which case, the accuracy of the carefully written plan is destroyed), or a separate line item labelled 'contingencies' can be added so that unanticipated expenses can be accounted for. This approach would be preferable over the former.

Talking to others who have entered into similar business ventures may help in gaining a better idea of the amount to be allowed for contingencies. If sufficient information is unavailable, the usual practice is to allow at least 20 per cent of the total of all the other start-up expenditures as contingencies.

The research that has been conducted must be accompanied by an explanation of how the forecasted expenditure has been arrived at. The terms of the proposed loan, the contribution to be made by every investor and the percentage of ownership each of them will have must be submitted along with the amounts and sources.

4.4.8 Financial Plan

The profit and loss projection for a twelve-month period, or optionally, the profit and loss projection for a four-year period, a projection of the cash flow, a projected balance sheet and a break-even computation are contained in the financial plan. Altogether, a reasonable evaluation of the firm's financial future is constituted by them. In addition, a better insight can be gained into the financial workings of the firm.

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Twelve-month profit and loss projection

A number of business owners entertain the notion that the profit and loss projection for a twelve-month period is the central aspect of their business plan. It is here that all the numerical data is compiled and some conclusion derived about how profits can be earned and the business run successfully. The sales forecast, in which expenditures, cost of goods sold, sales and a month-by-month account of the profits for one year are forecasted, helps in arriving at the sales projection. A narrative must accompany the profit projection, which explains the key assumptions made in the estimation of the expenditure and incomes of the company.

Proper notes must be kept by the entrepreneur on the assumptions made and the research carried out so that they can be explained subsequently, if required, and when some revision is required in the plan, the entrepreneur can revert to the same sources.

Four-year profit projection (optional)

At the centre of the financial plan lies the twelve-month projection. It is only those who wish to extend their forecasts beyond the first year that make use of the four-year profit projection.

Proper notes must be kept by the entrepreneur on the major assumptions made, particularly those that might vary drastically after the first year.

Projected cash flow

If profit projection is the heart of the business plan, cash flow is the blood. A business often fails because of its inability to pay its bills. Each section of a business plan is significant; however, it all becomes meaningless in the absence of cash. The objective behind projecting the cash flow is to estimate the amount of cash required prior to starting up for reserves, operating expenses and preliminary expenses. It is necessary to update it and refer to it subsequently as it can assist in anticipating shortages and take the necessary action such as negotiating loans or cutting expenses. He can then avoid being caught unprepared.

It is not difficult to prepare a cash-flow projection. It is merely a forward glimpse into one's checking account.

For every item, the time when the cash will actually be received (for sales) and the time when he will have to write a cheque (for expense items) has to be determined by the entrepreneur.

The vital operating data that may not necessarily constitute a portion of the cash flow, but still enables the tracking of items that affect the cash flow such as inventory and sales purchases, must be tracked by him. In addition, the cash outlays too need to be tracked by him before a pre-startup column is opened. Research must have been carried out in advance for his startup expenditure plan.

The cash flow shows the adequacy or inadequacy of the working capital. Obviously, more startup capital will be required if the projected cash balance is negative. Such a plan can also aid in predicting the amount and the time at which he might have to borrow.

His key assumptions have to be explained by the entrepreneur, particularly those that are instrumental in causing some difference to emerge between the profit and loss projection and the cash flow. For instance, in case a sale is made in the first month, then when exactly is the cash to be collected? When are the materials or inventories to be bought? Should payment be made in advance or after delivery or at some other point? How might the cash flow be affected by this? Is the payment to be made in advance for some of the expenses, and if so, then how soon? Would there be any irregular expenditure such as budgeting inventory buildups, repairs and maintenance or quarterly tax payments? Owner's draws, equipment purchases and loan payments are generally not visible on the profit and loss statements, but certainly use up the cash. These must be included along with depreciation that fails to show up in the cash flow as no cheque is drawn for it.

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Opening day balance sheet

Balance sheets are one of the essential financial reports that businesses require to report and manage the finances. All the items of value that the firm holds (assets) as well as the debts owed by the firm (liabilities) are shown in the balance sheet. After subtracting the liabilities from the assets, what remains is the owner's equity. The capitalization spreadsheet and the startup expenditure may be used by the entrepreneur for guiding him through the preparation of the opening day balance sheet. This is followed by details about the manner in which the opening day account balance was calculated. Optionally, some business owners may wish to include a projected balance sheet that shows the estimated financial standing of the firm at the conclusion of the first year. This is of particular use when the proposal has to be sold to investors.

Break-even analysis

The sales volume, at a specified price, that is needed for recovering the total cost is predicted by a break-even analysis. That is, it gives the level of sales that forms the difference between functioning at a profit or a loss.

The formula for calculating break-even sales is as follows:

$$\text{Break-even Sales} = \frac{\text{Fixed costs}}{1 - \text{Variable Costs}} \qquad \ldots(4.1)$$

(Where the variable costs are expressed in terms of percentage of total sales and fixed costs are expressed in terms of rupees.)

All the assumptions that form the basis of calculating the break-even sales must be included.

4.4.9 Economic and Social Considerations

It is also prudent to mention the abatement costs i.e. the cost to be incurred for controlling environmental damage such as pollution effluents, emissions, etc. The abatement cost involves the value of additional engineering and technology needed for treating effluents and emissions. It is also called reengineering, and it helps to maintain the ecological environment. The business plan should also state the social-economic benefits that may accrue. Examples of some of the benefits are as follows:

- **i. Import substitution:** The extent and manner in which the proposed unit would achieve import substitution and the probable benefits that may be expected are mentioned in the business plan.
- **ii. Promotion of employment:** The number of persons proposed to be employed in relation to the employment situation of that area may be mentioned. Whether a preference would be given to the locals or not can be mentioned in the business plan.

Check Your Progress

3. List the different kinds of market research.
4. What barriers does a new company face when entering a market?
5. What are the observations that have to be made on a customer's survey in a business plan?
6. What is a sales forecast?
7. What are the two ways by which allowances are made for unexpected expenses?
8. What is break-even analysis in a business plan?

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iii. **Utilization of local resources:** The possibility of utilizing local resources should be stated in the business plan.

iv. **Promotion of ancillaries:** Whether the unit would promote ancillary units to meet its sub-contracting requirements must be specified in the business plan.

v. **Development of the area:** To what extent would the establishment of the unit bring development to the local area should also be mentioned in the business plan.

vi. **Export potential:** Whether the unit has export potential and to what extent its products could be exported to other countries should be mentioned in the business plan.

4.5 SUMMARY

In this unit, you have learned that the business plan must be compendious and the outcome of in-depth planning by the management and organizers of the institution. The economic conditions, competition, customer base and market demand must be realistically forecasted by it.

A business plan should estimate the production demand, raw material consumption and manpower and capital requirements in terms of value of money. It should also estimate the prices of products and sales. The plan has to project the cost of production and sales revenue to determine its feasibility.

A business plan may be prepared in different ways by different entrepreneurs. There is no standard pattern for it. However, it must contain all information necessary to appraise it and for lending institutions to take a financial decision. The amount of information to be furnished in the report depends upon the size of the unit, the nature of production, and the amount of finance required.

Guidelines of the Planning Commission of India in preparation of a business plan include general information, preliminary analysis of alternatives, project description, marketing plan, capital requirements and costs, operating requirements and costs, financial analysis, economic analysis.

4.6 KEY TERMS

- **Twelve month profit and loss projection:** The statement in which all the numerical data is compiled and some conclusion is derived about how profits can be earned and the business run successfully.
- **Cost of goods sold:** The expenses that relate directly to the production or purchase of services and products.
- **Cash-flow projection:** An estimate of the amount of cash required for operating expenses and preliminary expenses prior to starting up a business.
- **Opening day balance sheet:** A balance sheet that presents the financial position of a firm on the opening day.
- **Break-even analysis:** A financial tool for understanding the no-profit and no-loss state.

4.7 ANSWERS TO 'CHECK YOUR PROGRESS'

NOTES

1. The business plan must be comprehensive. The management and organizers of the institution must carry out in-depth planning and then prepare the business plan. Economic conditions, competition, customer base and market demand must be accurately forecasted by it. Sound banking principles must be reflected in the plan along with a demonstration of realistic risk evaluation in the face of competitive and economic conditions in the target market.
2. The components of a business plan are estimation, projections, information calculations, and documentation. Business plan should estimate the production demand, raw material consumption, manpower requirements and capital requirements in terms of value of money, and it should also estimate the prices of the product and sales.
3. Market research can be of two kinds: primary and secondary.
4. The hurdles that might be faced by a firm as it enters the market are premier location problems (problems in acquiring the prime area in the market for services), quotas and tariff barriers, shipping costs, unions, distinct technologies and patents, skills and training, brand recognition and consumer acceptance, and high marketing, production and capital costs.
5. In a customers survey, the targeted customers are identified by the entrepreneur along with their geographic locations and characteristics. Based on whether the target customers are direct consumers or other businesses, the descriptions are likely to be different. If a consumer product is to be sold, but it is done so via retailers, wholesalers or some distribution channels, both the middleman as well as the end consumer need to be analysed. There may be more than a single customer group, in which case, the most important groups need to be identified. Following this, for every consumer group, a demographic profile has to be constructed that comprises education, occupation, social class, level of income, location, gender, age and other details pertaining to his industry.
6. A sales forecast is a method of forecasting future sales on the basis of industry data (if available), the marketing strategies presented earlier in the plan as well as the company's history of sales.
7. Surprise or unexpected expenditures can be dealt with in two ways: a little 'padding' may be added to all the items in the budget (in which case, the accuracy of the carefully written plan is destroyed), or a separate line item labelled 'contingencies' can be added so that unanticipated expenses can be accounted for.
8. A break-even analysis is employed to predict the sales volume, which is needed for recovering the total cost at a specified price. That is, it gives the level of sales that forms the difference between functioning at a profit or a loss. With the help of the break-even analysis, the entrepreneur can assess the value of sales required, if no losses are to be borne.

4.8 QUESTIONS AND EXERCISES

NOTES

Short-Answer Questions

1. What is the meaning and significance of a business plan?
2. What are the components of a business plan?
3. What is a market plan?
4. How will you assess the working capital requirements of your business plan?
5. Suggest some parameters to assess the financial soundness of a business plan.
6. What is the general information required in a business plan?

Long-Answer Questions

1. What is a business plan? Why is a business plan important to an entrepreneur?
2. How do private consultancies help entrepreneurs in the preparation of a business plan ? Describe their role.
3. Give a model business plan report for any business which you propose to launch.

4.9 FURTHER READING

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MODULE - 2

UNIT 5 FEASIBILITY STUDY

NOTES

Structure

5.0 INTRODUCTION

Feasibility analysis is crucial to the successful running of any business. This is because a well-planned business venture scans all the possible opportunities and threats, understands the demands of the market and arranges for the best possible resources, which finally leads to success. In this unit, you will learn about the feasibility study, its various stages and its areas of assessment.

5.1 UNIT OBJECTIVES

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

- Define feasibility study
- Understand the various stages of feasibility study
- Identify areas of assessment in a feasibility study

5.2 FEASIBILITY STUDY: AN OVERVIEW

Feasibility studies are exercises in which the potential solutions of business opportunities or problems are documented. They may be undertaken by all types of businesses, teams or projects. They form a crucial segment of the project life cycle.

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5.2.1 When should a Feasibility Study be Used?

The objective behind the feasibility study is the identification of the probability of one or more solutions that meet the specified business needs. That is, when there is uncertainty about the desired outcome being delivered by the proposed solution, some clarification can be achieved through a feasibility study. When a feasibility study is conducted, several types of 'assessment' techniques are used. Whatever solution emerges at the end of the study is deemed the confirmed solution that must be implemented.

5.2.2 Guidelines for Feasibility Study

Feasibility studies analyse the problem at hand and establish whether there is an effective solution for it. The suitability of implementing the solution is determined by the outcome of the study. The study is conducted during the project initiation phase, prior to engaging in any significant expenditure. General guide lines to a feasibility study are as follows:

- Performing a preliminary study for determining the viability of the project.
- Analysing an existing system for determining whether it is worth upgrading.
- Determining whether there is adequate time for building the new system and whether this would cause some interference with dependencies, the amount and type of resources needed, operations, etc.
- Establishing the cost-effectiveness of the system that is proposed.
- Determining whether the system results in some legal conflicts.

5.3 STAGES OF A FEASIBILITY STUDY

Nowadays, private consultancies are doing feasibility studies on different types of project works following a systematic procedure. Generally, they divide the feasibility study into four stages. At each stage a report is generated, which is shown and explained to the client. Thereafter, permission is sought to proceed to the next stage. The stages of a Feasibility Study in normal course of action are as follows:

1. Conceptual stage
2. Elaboration stage
3. Construction stage
4. Implementation stage

5.3.1 Conceptual Stage

In this initial stage, an analysis of the business requirements of the client is performed; details regarding those participating in the project and system requirements are gathered and examined. A study of what the client expects with regard to system implementation is carried out and a solution is presented. The restraints, parameters and goals of the project such as conceptual problem solution, time frame for the project and the budget for the project and policies regarding adjusting it are established with the client.

The following tasks are performed at this stage:

- Estimation of the feasibility of the project and defining its scope
- Identification of the benefits and risks
- Elaboration of the structure of the project
- Planning the project roughly

- Accurately planning the next stage of the project stage
- Precise evaluation of the cost involved in the next phase and approximate evaluation of the cost involved in the other phases
- Definition of functionality development priorities
- Estimation of system creation risks

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The following documents become available when this phase concludes:

- Feasibility Report — describes the solution that is proposed and lists the high-level functional requirements
- Project Structure — describes the organization of the project
- Project Plan — gives the project schedule
- Risks List — lists the potential risks associated with the project and the possibility of eliminating them

The client must agree with and sign the feasibility report. Once it is signed then the project team and the client share the understanding of the tasks and goals and can agree on the process to be followed for implementing the project. On an average, it takes roughly 10 per cent of the total duration of the project for this phase to be completed.

5.3.2 Elaboration Stage

Here, the following tasks are performed by the project team:

- Analysis of the needs and expectations of the client with regard to the development system
- Definition of functionality of the main components of the system and the composition and architecture of the system
- Designing of the system on the basis of the outcomes of the analysis
- Establishment of the accuracy of the timing

The documents that are created during this stage include the following:

- Functional Specification — describes the functionality and architecture of the system as well as the logical data models
- Configuration Management Plan — describes the structure of the storage of project files as well as the rules for building the system

The client must agree with and sign the functional specification. Once it is signed, the project team and the client agree about the following:

- Providing a solution to the problem faced by the client with regard to project parameters (project restrictions)
- Comprehending the risks associated with the project and sharing it with the customer
- Project plan (time, cost and functionality)

On the basis of the requirements of the customer, there may be some variation in the name of the document (such as Requirements Specification or System Requirements Specification). Following the preparation of all the above documents, the next step is the creation of the Test Plan, which gives a description of the testing procedures to be followed during the project. Consequent on this stage, an absolutely documented solution is presented to the client, which he can then develop into an entirely functional system, in time and keeping within the budget that has been allocated to it. When this phase concludes, the client is provided with a rather accurate assessment of the time and cost involved in implementing the project. On an average, it takes roughly 30 per cent of the total duration of the project for this phase to be completed.

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5.3.3 Construction Stage

Here, the system requirements are determined by the project team (in case they were not determined in the earlier phase) and the system is developed on the basis of the outcome of the analysis and design carried out in the preceding phase.

The tasks that are preformed at this stage are as follows:

- Defining the requirements of the system iteratively on the basis of the outcome of development
- Coding the components of the system
- Integrating the components of the system
- Testing the system
- Managing the risk associated with the project
- Updating the project documentation (if there is some variation in the requirements)
- Preparing technical and user documentation

Simultaneously with any advances in the coding, the creation and upgradation of the Technical Specification also takes place. Detailed descriptions of the architecture of the system are contained in it. The primary object of this stage is the completion, delivery and installation of a full-scale operational application in the real working environment of the client so that it can be adjusted, set up and configured on the customer's hardware. The completion of coding and integration is followed by the commencement of the process of testing. The Test Specification is created in advance. Once the development and testing of the system concludes, the next step is the development of the plan for implementing the system at the client's location. The following details are contained in this document:

- Implementation timing
- The schedule and list of the tasks to be performed during implementation
- The resources that would be required
- The job responsibilities to be implemented

On an average, it takes roughly 50 per cent of the total duration of the project for this phase to be completed.

5.3.4 Implementation Stage

In this stage, the system that has been developed is delivered to the client by the project team. Numerous iterations may be contained in this phase, including user acceptance testing and system modification on the basis of the feedback received from the user after testing. A Letter of Acceptance is signed by the client following acceptance testing. The following tasks are performed during this phase:

- Installing the system at the client's location
- Integrating the system in keeping with the client's technology

- Configuring the system
- Training the users

When this stage concludes, a reliable application that corresponds to the functional specification is received by the client. If, at the conclusion of the implementation stage (and the project itself), the system functionality needs to be expanded, it is possible to enhance the system within the framework of a new project. A functional version of the system is received by the customer even as iterative system development proceeds and functionality is added to the existing system. On an average, it takes roughly 10 per cent of the total duration of the project for this phase to be completed. The client arrives at at a decision about closing the project after the successful completion of this stage.

With the completion of all the four stages, the client has benefited from the feasibility study and has been able to make the project a reality. This is a multipurpose activity taken up by private consultancies for mutual benefit.

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5.4 AREAS OF ASSESSMENT IN A FEASIBILITY STUDY

A critical feasibility study consists of the following areas of assessment, which are used by financial institutions to study a project with a view to determining its viability:

1. Market Feasibility Analysis
2. Technical Feasibility Analysis
3. Financial Feasibility Analysis
4. Economic Feasibility Analysis
5. Managerial Feasibility Analysis
6. Social Feasibility Analysis

5.4.1 Market Feasibility Analysis

Market feasibility studies usually include primary and secondary research. The former is used for compiling information that does not exist yet by means of market surveys and offers details about the level of interest and market strength of the proposed products or services. The latter involves information that already exists and offers a general outline of the industry in which the entrepreneur intends to compete. It is usually inclusive of growth trends and the size of the industry. Following the identification of the potential customers to be targeted, a market survey is carried out, usually through telephone, mails or online means, for assessing the demand for the service or product and gaining objective feedback. The usual size of a sample is between 100 and 350 responses, depending on the budget and the accuracy of the data. The questions asked in the survey must be unbiased and must ensure that the research quality is not compromised. The information thus obtained from primary and secondary sources assist in deeply analysing the data so that a report that presents the major findings can be offered to lenders and investors or utilized by the management of the firm for making GO/NO GO decisions with respect to project feasibility.

In addition, possible future changes in the volume and pattern of supply and demand should also be estimated to assess the long-term prospects of the unit. On the demand side, the following factors should be taken into consideration:

Check Your Progress

1. What is a feasibility study and what is its purpose?
2. How many stages are there in a feasibility study? What are their names?
3. What are the performed during the implementation stage?

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- The potentialities of the export market and the government policies on export
- The likely changes in income and price levels
- The probable expansion of manufacturing industries and the increase in quantity of production
- The consequent effect of globalization on industries
- The impact of technology on the production process
- The probable market share of the product and its stabilization, growth factors
- The impact of advertising and sales promotion measures to be launched, etc.
- The financial institutions' views on lending

On the supply side also, the following factors should be taken into consideration:

- The extent of capacity utilization
- The possibility of substitutes because of technological innovation and structural changes
- The proposed distribution channels
- Advantages and disadvantages of project cost
- Provision for after-sales service
- The proposed designing and packaging
- Competitive position of the proposed project
- Identifying the existing and potential competitors

5.4.2 Technical Feasibility Analysis

Technical feasibility simply refers to the capability of the proposed plant and equipment to make the product as per the required norms. Technical analysis is done to assess the operational ability of the proposed business enterprise. This aspect requires careful examination and assessment of the various inputs of the project such as land, machineries, trained labour, transportation, fuel and power. The cost and availability of technology could either prove to be crucial in determining project feasibility or have no significance at all. It also requires an analysis of the know-how necessary to run the project and whether the entrepreneur possesses that knowledge or he is going to procure from outside. Sometimes, a project may require collaboration. In such a case, terms and conditions of the collaboration should be examined. In the case of foreign technical collaboration, the legal provisions prevailing in the country in relation thereto should also be analysed.

Technical analysis deals with the following aspects:

- Requirment land and the availability of land and site
- Location of the plant and its capacity
- Size and adequacy of the plant and factory layout
- Requirment and availability of inputs like water, power, transport (road, railway, sea route and air connectivity), communication facilities (post office, trunk office, satellite signals), etc.
- Availability of servicing facilities like machine shop, repair shops, etc.
- Availability of skilled labour and raw material

- What are the technological needs of the proposed business? From where will this technology and equipment be obtained? What will be the cost of technology and equipment?
- Law and order condition

NOTES

The lending institution may employ a technical consultant to study the project on its technical aspects.

5.4.3 Financial Feasibility Analysis

After the Marketing and Technology feasibility studies are done, a financial feasibility study is conducted to assess the financial issues of the proposed business venture. Nowadays, finance is easily available. Hence, the appraisal of the financial viability of the project assumes importance in a business plan feasibility study. This requires the scrutiny of the following:

(a) Investment cost of the project and means of financing

(b) Approximate cash flow

(c) Projected balance sheets

(a) **Investment cost of the project and means of financing:** Business needs both long-term capital to acquire fixed assets, and short-term working capital for its day-to-day operations. Assessment of the financial requirements both for fixed and working capital should be made carefully. In fact, the financial plan for meeting the cost of the project depends upon the accurate estimates of the various costs such as plant plinth area, machinery cost, capacity, manpower requirement, inventory levels management, etc. The cost of the project normally includes the following items:

- Cost of land and site development
- Construction cost of plant and procurement cost of machinery (including spare parts, erection charges, etc.)
- Technical consulting charges and engineering fee for technological know-how
- Pre-operative expenses (such as land registration, licensing, stamp duty and correspondence with government organization and suppliers)
- Interest during construction
- Provision for contingencies
- Margin money for working capital
- Other fixed assets

The cost of production should not be underestimated. Having estimated the cost of the project, the sources of finance should be identified. The usual sources of finance are as follows:

1. Own funds
2. Share capital
3. Issue of debentures
4. Reserves and surplus and retained earnings
5. Term loan and long-term borrowings

6. Deferred payment guarantee

7. Public deposits

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The sources are internal as well as external. In case of expansion of an existing unit, it is judicious to tap the internal sources to meet additional capital requirement. On the other hand, a new entrepreneur has to seek external sources, and he has to think of cheaper capital resources. Cheaper capital resource is debt; it is cheaper than share capital. But it is not acceptable to delay on debt only in capital structure construction. In design of capital structure, the debt, equity ratio of 2:1 should be strictly adhered to.

(b) **Approximate cash flow:** This is a projection of the future sources of cash and their application. An approximate Cash Flow statement is necessary in order to ascertain money requirements for various purposes in the project and also to know the resources to get the required money at the right time. Moreover, this statement helps to fix the repayment schedule on the basis of cash accumulation shown in the statement.

In a cash flow statement, profit is the most important source of inflow and this actually depends on how accurately the production costs and sales estimates have been made. It also depends upon the management policies. For instance, a change in the method of valuation of stock would affect the profit correspondingly.

The lending institution should pay special attention to the debt service coverage ratio, which establishes the relationship between net profits and the repayment of term loans and interest thereon. It is calculated as follows:

Debt Service Coverage Ratio

$$= \frac{\text{NP after tax + interest on Term Loan + Depreciation}}{\text{Term loan installment + Interest on term loan}} \tag{5.1}$$

The lending institution insists upon a ratio of 2:1 since it indicates that even if only 50 per cent of the net profits are earned, still repayment of term installments together with interest would not pose a problem.

(c) **Projected balance sheet:** The projected balance sheet will reflect the financial position of the concern in the future years during the entire period of the term loan. One can find out the effect of the plan of operations on the assets, liabilities and capital of the business unit.

The lending institution should pay special attention to the following:

- The procedure adopted for the valuation of assets
- The depreciation policy adopted
- The impact of term loan on the assets and liabilities

After sanctioning the term loan, the lending bank has to make a post-sanction inspection to check:

- Whether the loan has been actually utilized for the purpose for which it was borrowed
- Whether the terms and conditions of the loan have been complied with
- Whether the value of the security is adequate
- Whether there is any default in repayment

To ascertain the financial feasibility, two more popular methods are used. They are as follows:

1. Simple Rate of Return Method
2. Pay Back Period Method

1. **Simple Rate of Return Method**: Simple rate of return is the ratio of net profit to the initial investment in a normal year in terms of both fixed and working capital. However, if a person is interested only in equity, the profitability of equity alone can be ascertained. The simple rate of return can be ascertained with the help of the following formula:

$$R = (F - Y) / I$$

$$Re = F/Q \qquad (5.2)$$

Where R = Simple rate of return on total investment

Re = Simple rate of return on equity alone

F = Net profit after depreciation, interest and taxes in a normal year

Y = Annual interest charges

I = Total investment including equity and debt

Q = Equity capital alone

The simple rate of return is very helpful to ascertain the profitability position quickly especially for projects with a short life.

2. **Pay Back Period Method**: It is an important tool to measure the number of years required to recover a project's total investment from the cash flows it generates. For instance, for a project with an investment of Rs 50,00,000 and an expected cash flow of Rs 10,00,000 per year for 5 years, the pay back period is ascertained as follows:

$$\text{Pay back period} = \frac{\text{Initial investment outlay}}{\text{Annual cash flow}}$$

$$= \frac{50{,}00{,}000}{10{,}00{,}000}$$

$$= 5 \text{ years}$$

It means that the project's initial investment can be recovered in five years. It clearly shows the liquidity aspect of a project. Shorter the pay back period, quicker is the recovery of initial investment. Even if cash flows are not uniform, the pay back period can be ascertained easily by adding together cash flows until the initial investment is recovered.

5.4.4 Economic Feasibility Analysis

It is essential to ensure that the project is economically viable. Economic viability depends upon its profitability. A project without adequate profits cannot be commercially viable. Hence, the economic viability can be assessed through projections of profitability for a period ranging from 3 to 10 years. The profitability of a project should be established on a long-term basis. Thus, the economic feasibility analysis includes the analysis of the requirements of raw materials, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits.

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The economic feasibility analysis includes the following:

- Preparation of projected profitability statements for a period of 5 to 10 years
- Calculation of certain ratios to ascertain economic viability like debt service coverage ratio, pay back period, average rate of return, net present value, break-even sales and internal rate of return.

5.4.5 Managerial Feasibility Analysis

It is basically a study of the competences and ethical values of the promoters. Financial institutions are generally focused on the background of promoters in terms of their experience, education and economic soundness to repay the loan amount. The appraisal of the management is indeed the touchstone of term credit analysis. It is so because the success or failure of any enterprise depends upon the direction and efficiency of the management. In the absence of managerial competence, the project which is otherwise feasible may fail. On the other hand, a poor project may turn out to be a successful one with efficient managerial ability. Managerial competence can be judged with reference to the following:

1. Educational background of promoters
2. Previous experience in the field and managerial competence
3. Possession of entrepreneurial talents
4. Honesty, integrity and reputation of promoters
5. Possession of adequate know-how of the business

5.4.6 Social Feasibility Analysis

Any business should be socially responsible. These days organizations have a sense of social responsibility, because the customer of an organization is an important element in society. If he is well, the society is well and in turn it is good for business. In fact, business is not merely a profit-making occupation but a social function, which entails certain duties and requires that appropriate ethics are followed. It must accept its obligation to be socially responsible and to work for the larger benefit of the community. It has a lot of responsibility to the community around its location and to the society at large. Hence, social considerations should be given equal weight in the appraisal of a project. The social feasibility analysis includes the following:

- Whether the project offers large employment potential
- Whether it is located in a backward and less-developed area
- Whether it would stimulate small and ancillary industries in the region
- Whether adequate provision has been made for the treatment of effluents so that there may not be any environmental pollution

Check Your Progress

4. What are the areas of assessment in a feasibility study?
5. What needs to be scrutinized in financial feasibility analysis?
6. What is the formula for Debt Service Coverage Ratio?

5.5 SUMMARY

Feasibility studies are exercises in which the potential solutions of business opportunities or problems are documented. They may be undertaken by all types of businesses, teams or projects. They form a crucial segment of the Project Life Cycle. Areas of assessment in a feasibility study consist of a market feasibility analysis, Technical feasibility analysis, Financial feasibility analysis, economic feasibility analysis managerial feasibility analysis and social feasibility analysis.

The preparation of feasibility study requires intensive observation and data analysis on the identified project area. A constructive business plan makes it easier for an entrepreneur to do the feasibility study. A perfect and prompt feasibility study will assist an entrepreneur in financing his project and launching a successful business.

5.6 KEY TERMS

- **Market feasibility study:** It is the study that offers information about the level of interest and market strength of the proposed products and services.
- **Technical feasibility study:** It refers to the capability of the proposed plant and equipment to make the product as per the required norms.
- **Simple rate of return:** It is the ratio of net profit to the initial investment in a normal year in terms of both fixed and working capital.

5.7 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Feasibility studies are exercises in which the potential solutions of business opportunities or problems are documented. They may be undertaken by all types of businesses, teams or projects. They form a crucial segment of the Project Life Cycle. The objective behind the feasibility study is the identification of the probability of one or more solutions that meet the specified business needs.
2. There are four stages in a feasibility study. Their names are as follows:
   - Conceptual stage
   - Elaboration stage
   - Construction stage
   - Implementation stage
3. The following tasks are performed during the implementation stage:
   - Installing the system at the client's location
   - Integrating the system in keeping with the client's technology
   - Configuring the system
   - Training the users
4. Areas of assessment in a feasibility study are—market feasibility analysis, technical feasibility analysis, financial feasibility analysis, economic feasibility analysis, managerial feasibility analysis and social feasibility analysis.
5. Financial feasibility analysis involves scrutiny of the following:
   - Investment cost of the project and means of financing
   - Approximate cash flow
   - Projected balance sheets
6. The formula for Debt Service Coverage Ratio is as follows:

$$\frac{\text{NP after tax + interest on Term Loan + Depreciation}}{\text{Term loan installment + Interest on term loan}}$$

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5.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. List the stages of feasibility study.
2. Give an overview of guidelines for a feasibility study.
3. What is meant by the projected balance sheet?
4. Define the Pay Back Period Method and state its formula.

Long-Answer Questions

1. Discuss the conceptual stage of the feasibility study.
2. Compare market feasibility analysis with technical feasibility analysis.
3. Describe the financial feasibility analysis.
4. What is meant by the managerial feasibility analysis? Why is social feasibility analysis important for a successful business?

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UNIT 6 PROJECT FINANCE

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Structure

6.0 INTRODUCTION

After an entrepreneur has completed the feasibility study, he still needs money in order to make his dream a reality. Project finance means arranging finance to meet the

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requirements of project expenditure, including start up expenditure. Without project finance the entrepreneur cannot meet the financial requirements of every stage of the project. Finance is needed to acquire fixed assets such as machinery, plant and building as well as working capital to meet the day-to-day operational needs of the project. Venture capital is the promoters' contribution to launch the project work. There are two types of sources to satisfy project finance requirements: internal sources, such as cumulative reserves and other reserves, and external sources, which are issue of shares, debenture and debt from financial institutions. Nationalized banks, Life Insurance Corporation of India, Industrial Development Bank of India (IDBI), and Small Scales Industries Development Corporation (SSIDC) are some of the financial institutions that are aggressively financing projects. Besides, the entrepreneur raises finance by availing of subsidies, state aid to industries, etc. Project finance, therefore, is crucial to the success of a project.

6.1 UNIT OBJECTIVES

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

- Understand the need of finance in project promotion
- Know the types of financial requirements of a project
- Know the various sources of finance
- Understand what venture capital is and its importance in project promotion
- Know about financial institutions and their role in financing a project

6.2 NEED FOR FINANCE

Finance is the lubricant in the operations of a project. After completing a favourable feasibility study, the entrepreneur should identify the sources of finance so as to meet start up expenses such as licensing fee, documentation fee on loans, site registration and stamp duty charges, site development cost, power connection, and water supply charges. Finance is required to meet both long term as well as short term requirements of the project.

6.2.1 Short-Term Financial Requirements

Short term finance is needed to meet the day-to-day operations of a project or to supply working capital to a project. Short-term finance requirements are:

1. Procurement/purchase of raw material,
2. Payment of salaries and wages
3. Meeting power and fuel expenses,
4. Remiting rent, interest, commission, insurance premium,
5. Meeting the stationery and bank charges, and
6. Purchasing small tools and meet other day-to-day expenses of the project.

6.2.2 Long-Term Financial Requirements

Long term need for finance is based on the size of operations. It is for acquisition of fixed assets such as:

1. Site/land purchase and development,
2. Construction of plant and buildings and development of infrastructure,
3. Purchase of machinery, equipment, tools, furniture and fittings, and
4. Purchase of moveable property such as trucks, vans, cars, lorries and other vehicles.

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Overall need for finance is to meet the fixed and variable costs of the production process, purchase fixed assets and for payment of interest on debt, and other working capital needs of project.

There was a time when project finance was a fairly simple banking exercise. However, many changes in the economic environment have taken place and the process is no longer simple. The figures for total investment in almost any major capital plant development have, by the joint action of inflation and technical innovation, reached huge dimensions which an individual company cannot accommodate. Again high rates of inflation have escalated costs, particularly in relation to the basic price of any capital plant where a long period of manufacture is required before it can be set up and start functioning.

Financial appraisal is probably the most important aspect of project financing. It covers the following aspects:

i. The total capital cost of the project
ii. The means of finance to meet the projected cost
iii. The projected operating costs and revenues.

Finance is a constant problem, and if small-scale industries are to develop according to Government policy, they must have adequate credit. Credit is available on the basis of the creditworthiness of the entrepreneur. In regard to capital structure and working capital management, there are many differences between large, medium and small-scale industries. Finance is the life-blood of any business. Its management is an art and merits special attention. The financial function of management is to:

(a) Ensure fair return on investment;
(b) Generate and build surplus and reserves for growth and expansion;
(c) Plan, direct and control the utilization of finances so as to ensure maximum efficiency of operations and build a proper relationship with suppliers, financiers, workers and members; and
(d) Coordinate operations of the various departments through appropriate measures to ensure discipline in the use of financial resources.

6.3 TYPES OF FINANCE

There are various needs for finance in a project. Finding the means of obtaining finance to satisfy a particular need requires an understanding of the project operations and different activities of that project and its span of time and size. Project activities are generally sequential; which means that on completion of one activity the other begins. Sometimes two or more activities can also be done simultaneously. What type of finance is suitable for a project activity and how many types of finance should be tapped demands a continuous review of the project performance. The following are some important forms of finance.

Check Your Progress

1. What is project finance?
2. At what stages is finance needed?
3. What is meant by short term and long term finance?

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6.3.1 Overdraft

This is one of the facilities provided by the banker on the current account. Under this, an account holder can draw some amount (to the extent of his overdraft limit) from his current account without credit balance. Based on credit worthiness, an overdraft limit is sanctioned to the current account holder. It is a popular form of finance because it has the advantages of availability, convenience and flexibility. However, because interest rates are high, it should only be used for short-term requirements such as funding working capital.

6.3.2 Bank Term Loans

These loans are intended to meet the needs of financing fixed assets. These provide fixed-term finance for longer periods. They are often secured by a charge against company assets and require the entrepreneur to sign legally binding covenants. The entrepreneur needs these types of loans to meet his company's long term business requirements such as for constructing buildings, plant and purchasing machinery and for infrastructure development.

6.3.3 Asset-Based Finance

This is generally used for purchasing capital goods, which require a huge amount of money. The asset is essential for business operations and will provide profitability to the project for a long period of time. Asset-based finance describes financing as an asset over its estimated life span using the asset as security for the loan. It can be structured so that the borrower has the sole right to use the asset and ownership transfers to the borrower at the end of the loan period.

6.3.4 Receivables Finance

This form of finance is meant for meeting the short-term financial needs of merchandize against credit sales or services. The credit merchandizer provides goods or services to a customer and invoices them, and sends the same to the banker. He has access to reserve funds up to an agreed percentage of the invoice value. He can withdraw the amount from his account as and when needed. Either the banker or an overseas representative will collect the sales proceeds from his customer. When the invoice is paid, he receives the balance. In the case of undisputed receivables where a customer defaults or becomes insolvent, if the merchandizer has taken out credit protection on the customer with his banker, the banker will pay him the outstanding balance up to the value of the agreed credit protection limit. This form of finance uses outstanding customer invoices as security.

6.3.5 Invoice Discounting

Similar to Receivables Finance, this is usually only offered to larger companies with strong credit management systems.

6.3.6 Angel Funding

An angel investor is a financially sound or wealthy individual who can provide capital for starting a business, generally in return for ownership equity or convertible debt. Although still not too many, a growing number of angel investors are organizing themselves into angel networks or groups for sharing research and pooling their investment capital.

Unlike venture capitalists who professionally manage money pooled from others, angel investors usually invest their own resources. Though they usually reflect the individual's investment judgement, the actual entity providing the funds could be an investment fund, a limited liability company, a business or a trust. The capital obtained from angel investors is meant for filling the gap in start-up financing between 'family and friends' who offer venture capital as well as seed funding. Simply put, angel funding refers to an individual investing in a company in return for shares in the company.

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6.3.7 Venture Capital

This deals with financial investment in highly risky propositions, in the expectation that high rates of return will be earned. It is generally considered a synonym for high risk capital. Capital is provided by venture capital funds which are prepared to finance an untried company that appears to have promising prospects. Venture capital is a solution for capital mobilization of small scale industries, which are unable to tap the capital market for their capital requirements. A team of individuals pool their finances for providing capital funds to a new business that is just commencing. They invest in them in the hope that these businesses will develop and earn profits. Venture capital is the contemporary method of raising finance and hence has been discussed later in this unit in greater detail.

6.3.8 Conventional Loan

A conventional loan is typically any kind of lender agreement. There are several broad categories of conventional loans. Fixed rate mortgages are simpler in some cases. A home borrower 'locks in' at an interest rate, and he or she pays down the principal and interest on the mortgage every month at that rate. Other so-called conventional loans include conforming loans. Conventional loans are available either as long term or short term loans. For example, it is possible to repay personal loans over a longer duration. The characteristic of conventional loans is that they are set at a fixed interest rate.

6.3.9 Personal Lease

Personal lease means a vehicle that may be taken on a rental basis for a pre-decided period of time (generally one to five years) and monthly repayments may be made just as in renting a house. The difference between personal lease and rent is that in the case of a personal lease, at the conclusion of the pre-decided rental period, it becomes possible to sell the vehicle, or it is taken back by the financial company that rented it, and then sold as a used vehicle. Generally, people use a personal lease when they require a vehicle for household or private purposes over 50 per cent of the time. In case they also use the vehicle for business purposes, some tax deductions may be available against the personal lease.

6.3.10 Hire Purchase

This is another type of finance generally used by entrepreneurs for acquiring assets. Most small businesses opt for hire purchase because of the flexibility it offers in getting the required machinery and vehicles. For example, in a hire purchase agreement, an entrepreneur is obliged to purchase the vehicle through a final payment (balloon payment) made at the conclusion of the pre-decided hire purchase period, in addition to the installments that he pays during the lease period. In the hire purchase option, the contract

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can be arranged by the entrepreneur in such a way that the monthly installments suit budget and cash flow of the business – by enlarging the size of the balloon payment or deposit, the size of the monthly installments can be reduced. Flexibility in repayment in a hire purchase contract is attractive for a business that is just commencing and has numerous demands on its cash flow. It may enjoy some tax deductions for interest charges and depreciation in hire purchase contracts.

6.3.11 Operating Lease

In this agreement, the financial provider keeps the ownership rights of the vehicle and allows the customer to utilize it exclusively for one to five years against lease rental payments – similar to a long-term hire vehicle. For an entrepreneur who is keen to frequently change around his vehicles, after using them to the maximum, lease agreement is the best option. The advantage of operating lease is that the user of the vehicle need not have any worries regarding the residual value at the conclusion of the lease period and it is the financial service provider who stands to lose money on the vehicle's resale. In the case of operating leases, the vehicles that the company uses do not show up in the assets side of the balance sheet as assets. Hence, the gearing levels are not affected by the vehicle borrowing costs. Another advantage of operating leases is that, excepting except in the case of luxury vehicles, lease payments are entirely tax-deductible.

6.3.12 Chattel Mortgage

This financing option is suitable for a business that accounts for its operations on a cash basis. Its functioning is similar to hire purchase agreements: series of monthly payments are made by customers, followed by a balloon payment. A high degree of flexibiltiy is also offered by chattel mortgage, as the duration of the lease payment can be set by the buyers along with adjusting the monthly repayments by enlarging or diminishing the size of the balloon payment or deposit amount.

6.3.13 Other Options

The last few years have witnessed an expansion in the products offered by financing companies. Products such as credit cards, fuel cards, maintenance, fleet management and insurance are also offered by various financing companies.

6.4 SOURCES OF FINANCE

In general, projects accumulate their non-distributed profits as reserves. These reserves are the internal sources to projects for meeting their financial needs in times of expansion or diversification. Retained profit can be used by a company after a few years of operation – when the company starts making profits. (Whereas, companies usually break-even in the first year and make profit later.) If a business has had a successful trading year with enough profits to pay all is expenses, a part of that profit could be used by it for financing its future dealings. Using the accumulated reserves for long term finance is the best policy for any project, because the cost of capital is almost zero, and no mortgages on assets are required. Reduction of cost and sale of assets are also internal sources to help the firm meet its financial requirements. .

But reserves are not always enough to satisfy financial needs. Sometimes reserves may be exhausted. So projects should tap the external sources of finance, though it may have an impact on the cost of capital. Nowadays, there are many sources of finance for meeting the financial requirements of projects. Sources of finance are categorized as internal sources and external sources.

6.4.1 Internal Sources of Finance

Purchase from internal budget

Using internal sources of finance is called purchase from internal financial statement. However, the easiest type of funding is using internal funds such as cumulative reservoirs. It is usual to compare the investment against the following:

- Allocation of reserve funds for paying off the company's debt
- Opposing calls on funds, counting calls such as the calls on growing plant capacity as well.

It is essential to always spend a portion of the internal sources on the project, if only at the time of the initial appraisal, for convincing the external bodies as well as the senior management of the proposed investment's worth.

The internal sources include:

Controlling working capital

The money invested in current assets like raw material, finished goods and debtors etc. is working capital. In other words, money required for day-to-day operations of business/project/enterprise is called 'working capital'. The entrepreneur can keep a control on the working capital by prudently judging the requirements for day-to-day operations. This he learns with experience and hence the entrepreneur would be able to use this method after some time when the business gets established. Reducing costs, delaying outflows and speeding up inflows are some of the techniques applied from time to time to control working capital.

Sale of assets

New activities can be financed by a business or the debts paid off of assets such as vehicles, machinery, furniture and fittings, and property are sold off. This frequently works as a source of short-term finance (for example, a vehicle being sold for paying off debts); however, if the assets that are being sold have a high value (for example, building or land), even long-term finance could be provided by it. In case the assets of a business are to be used, the option of 'sale and lease back' may be considered, under which the assets are sold and then rented and hired from the new owner of the assets. This could involve the payment of more money in the long term, but locked up cash can be liberated by this form of finance in the short run for tiding over crises.

Owner's savings

Owner's personal savings applies more to sole traders and partnership firms than to any other form of business. Owners might sometimes wish to invest a part of their own money as capital in the business. Owners' personal saving investment may be to meet the short or long-term needs of the organization. The amount of the owner's savings availability depends on the amount that is invested as well as the decisions made by the individual making use of his savings.

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Reducing stock

One of the assets that a business can use for raising finance is stock, which consists of unsold finished goods, semi-finished goods and the raw material that the business holds. Some stock that can be put to use in the event of an unanticipated hike in market demand is usually held by a business. Stock levels have a tendency of rising at the time of recessions or economic slowdowns, because goods pile-up as a result of not being sold. This does not generally offer vast amounts of finance—huge stockpiles in a business are indicative of lack of demand for the product so that it becomes difficult to reduce the stock. It is seen by some as a source of short-term finance.

Trade credit

In a business, things are usually not paid for prior to taking possession of them. Rather, orders are placed for inputs/supplies and payment is made after the receipt of the items. It is advisable to make the payment in good time (within a month or so) as this helps the business in developing good relations with the supplier. In the balance sheet, this source of finance makes its appearance as trade credit. Such a technique of deferral of payment to some future period is a type of very short-term borrowing and aids in resolving cash-cycle problems.

Promoters contribution

This is the first external source of finance for the project. The promoter brings his share of capital into the organization as seed capital to meet the start up expenses of the project. Financial institutions, investors, and lenders want to know the promoters contribution in the project, before they take a decision on investment or lending loan. Promoter contribution is required in some cases of assistance such as grants and subsidies from government for a project.

6.4.2 External Sources of Finance

The following are the external sources of finance:

Equity finance

In joint stock companies, equity finance is one of the main types of finance in the capital structure. Equity finance means raising the capital by shares issue. It is the main element of capital structure by way of representing the investment on the project's promoters' behalf, and generally comes from individual investors, firms engaged in project promotion through sponsoring the project, manufacture of equipment and machinery, and from institutional investors such as energy investment funds that are expected to have some form of capital stake in the project or insurance companies.

Equity differs from debt. The profits earned on the project are received by equity. Based on the performance of the project, the share of profit to equity is influenced. For example, in case a project does well, there may be a considerable equity pay out, but in the case of underperformance or bankruptcy, banks and other claims are paid first and only then are the equity investors paid. Therefore, a higher degree of risk is associated with equity, but at the same time, higher returns can be earned by it as compensation.

Debt providers normally expect the project to be at least partly financed through equity fund. In the case of a project that is well understood and carries a relatively lower degree of risk, the equity stake may be as low as 30 per cent, whereas in a project that

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is not understood all that well and consequently carries a higher degree of risk, the equity stake that is needed could go up to more than 50 per cent of the total cost of the project. Borrowers of equity consider equity investment on the project as third party capital inputs (for example, in the form of capital subsidies and cash grants) or direct capital investment. Lenders of equity fund demand that borrowers of equity take an equity stake in their own right (for building their commitment to their stakeholding). In general practice, lenders of equity usually try to ensure that at least 20 per cent of the cost of the project is made available in the form of borrower equity.

Debentures

Debentures are certificates of loan agreements that are given under the company's stamp and that undertake to pay the principal amount as well as a fixed return (that is based on the rate of interest) to the debenture holder at the time of maturation of the debenture. In other words, debentures are a form of long-term loan that public limited companies may take for a large sum and repay over a period of many years. The usual practice is to borrow them from a specialist financial institution. They are defined as 'debt secured only by the debtor's earning power, not by a lien on any specific asset.'

Debentures are long-term instruments of debt that are utilized by big companies and governments and for obtaining funds. Except for the differing securitization conditions, they are quite similar to bonds. Debentures are generally unsecured as there is an absence of pledges or liens on certain assets. However, they are secured by all the properties that are not pledged otherwise. In the event of the company going bankrupt, debenture holders are treated at par with general creditors. In the case of debentures, the issuer enjoys the benefit of having certain assets left free of any burden so that they can be used as a source of finance later. A debenture holder can usually freely transfer the debentures held by him. Voting rights are not given to debenture holders and the interest they receive is charged against profits.

Debt finance

It is one of the chief types of finance, essentially required to build an optimum capital structure. Debt finance means borrowing loans from commercial banks, financial institutions and money lenders for a period of time on fixed rates of interest. Debt finance normally refers to a conservative commercial bank loan. In certain situations, a project may get debt from institutional investors i.e. insurance companies. An interest (or cost of the debt) is paid by borrowers of debt finance and the principal amount is repaid by them at the end of the loan period. A pre-decided interest rate is charged by lenders of debt finance that is set through the addition of an 'interest margin' to the standard inter-bank lending rate of the bank. It is normal practice to express the interest margin in 'basis points' that are representative of the bank's income or return on investment. Most countries are now considering interest payments on debt as a tax deductible source of expenditure, which is why debt is considered 'less expensive' than equity.

In debt finance, no share is possessed by the lender in the project and hence no 'upside' potential is available for him. This means that he is not considered for project sharing. By 'upside' it is meant that if a project performs soundly, profit as well as cash for the equity investors would increase. In debt finance the lender gets a constant interest amount on his loan and regardless of how good the performance of the project is, he never receives anything beyond the principal repayment and the interest. But if the project does not perform well, the lender stands the risk of encountering a 100 per cent loss on the loan extended to the project. Lenders have little or no opportunities for increasing their returns along with facing the probability of standing to lose their whole investment. Therefore, they concentrate on all the aspects of risk in order to minimize the risk that has to be borne by everyone who is party to it.

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Bonds

Bonds are a type of debt. They are generally issued to meet long term financial needs of a project; this means that bonds are liable to be long-term obligations that have fixed repayment schedules and rates of interest. Governments, companies or firms issue bonds as interest-bearing instruments and sell them to investors in order to raise capital fund. They are typically issued and sold in the public bond markets, though an increasing number of them are now being directly sold to institutional investors (this is called 'private placement').

Credit rating agencies are responsible for awarding ratings to certain private issues and public bonds. They use diverse nomenclatures, with AAA or AA+ generally being the top investment grade in bond rating and BBB–being the worst. So long as an investment grade credit rating can be achieved, there are certain advantages that bond issues enjoy over bank debt. One of these is that they may serve as sources of long-term finance, and at times, might even enjoy superior commercial terms. But they have lesser flexibility than bank financing. Additionally, in the case of projects that are undertaken in developing or what are considered riskier countries, the host country's investment rating affects the credit rating.

Grants

A grant is a non-returnable source of funding that is offered to exporters or for covering capital costs. Governments as well as local bodies that are interested in developing the projects, persuade developers to contemplate considering projects that carry a higher degree of risk along with indeterminate returns by means of grants, because of the location factor and to fulfill the responsibility of balanced regional development. It is possible to utilize grants for reducing the risk of investors as well as commercial lenders, or for covering the incremental capital costs. It is necessary to operate grant programmes with caution, in such a manner that the market forces are not deformed and the market does not collapse on their being withdrawn. Usually, lenders accept between 30 and 50 per cent of a project's total equity requirement through grants.

Government grants are usually offered for particular projects that are instrumental in benefiting or sustaining the environment in some way or aid the disadvantaged minority segments or make a contribution towards regenerating underprivileged sections. If a person is disadvantaged in any way, either physically or due to their background, then charitable associations and other such establishments may be sought for the grant of money for that particular project.

Advantages of grants

- There is adequate grant money available for ventures undertaken by disadvantaged minorities or for projects that make an active contribution to the environment or the community.
- Nothing is repaid by the entrepreneur.

Disadvantages of grants

- The usual practice is to offer grants for particular ventures, with the result that entrepreneurs may not be able to raise all the money required for a start-up project.

- Some strings are always attached. Entrepreneurs receive the money on the grounds that they spend it on certain items only.
- Not many businesses qualify for grant money.

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Factoring Services

Factoring services are short-term sources of finance to provide working capital needs of a project. Factoring services relieve the project promoter from the tension of delay from debtors and from meeting the creditor's demand of payment. A factoring company provides services by charging a nominal amount from project promoters for handling the process of debt collection. Most of the value of the debt is first paid by it to the business, following which money is collected from the debtor.

Banks

Banks are one of the important sources of finance to meet short-term financial requirements, such as the working capital for tiny, ancillary, small scale sectors. To get a short term loan, the entrepreneur should first visit the bank branch with which he has an ongoing relationship, because the banker can easily assess his requirements and get an idea about his business operation. Hence, he can get the loan at the right time. As far as mainstream investments that are a part of his normal operations are concerned, the bank would already be aware of them and might even deal in the types of investment required by the entrepreneur. For instance, in the case of unusual proposals that either carry a high degree of risk, or involve huge sums of money or novel technologies, the bank may still be in a position to assist the entrepreneur, either functioning through its own branch organization or collaborating with the entrepreneur as other financial institutions are approached. In a number of instances, only simple technical and financial appraisals are needed. The interest rate that would be levied on the entrepreneur for the loan would be dependent on the type and size of the loan, the borrower's financial strength, the level of risk associated with the loan and the prime central bank rates.

Insurance and Guarantees

Insurance and loan guarantees are fundamental constituents of financing. It is a general practice to put in place full insurance packages prior to finalizing the financing on a project. In the case of project work involving foreign assignment and technical intervention, insurance should be in a position to satisfy technology insurance that deals with the risks that are specific to the performance of the technology as well as export insurance that deals with the risks specific to engaging in business in other countries.

Export insurers usually provide a variety of appropriate insurance covers (e.g., Export Credit Agencies or ECAs, along with their counterparts in the private sector) for meeting foreign business requirements. Loan guarantees carry extreme significance, especially for project financing. ECAs furnish the insurance cover for loans, and guarantee to pay the exporter from the loan and also guarantee the loan value to the bank in case of default due to commercial or political risks. Loan guarantees are frequently considered to be essential prerequisites by banks if they are to extend a loan for a project.

Technology insurance is vital for the new generation of technologies (e.g., renewable technology). Lenders need to exercise caution while dealing with technological risks, particularly in the case of novel technologies or newer application of older technologies. For technological risk to be covered, bonds or performance guarantees

Check Your Progress

4. What is venture capital?
5. What is hire purchase?
6. What is chattel mortgage?
7. State the importance of internal sources of finance.
8. What is equity finance?
9. What is debt finance?

are frequently provided by manufacturers. In the event of the manufacturer not being a huge creditworthy organization, further support may be needed from bank guarantees or commercial insurance policies.

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6.5 VENTURE CAPITAL

Small Scale Industries (SSIs) are inherently unable to raise funds from capital markets. So the financing of small scale industries deserves a special treatment. The reasons why SSIs fail to get finance from capital market are:

1. They are high risk ventures.
2. Their profitability is low.
3. They do not possess adequate tangible assets to offer as security.
4. They are reluctant to issue equity share capital because of high transaction costs, and fear of loss of control by shareholders. Moreover, stock markets have tough listing requirements and SSIs being small in size and funds cannot fulfill these requirements.
5. They do not have access to capital markets to borrow.

From the above it is clear that young entrepreneurs who want to promote SSI are unable to raise equity capital. Thus, it is unavoidable to borrow money or obtain loans at a high rate of interest. A young entrepreneur needs a source of finance which is willing to provide funds but without imposing strict conditions on him. He may not be willing to tap the public financial market but venture capital provides a solution to the problem of raising capital and supporting him right from the initial stage onwards.

6.5.1 Meaning and Definitions of Venture Capital

Venture capital refers to financial investment in a proposal that carries a high degree of risk that is made in the hope that high rates of return will be earned. It is generally considered a synonym of high risk capital. Capital is provided by venture capital funds which are prepared to finance an untried company that appears to have promising prospects. Venture capital is a solution against capital mobilization of small scale industries which are unable to tap the capital market for their capital requirements.

The **Pratt Guide** has defined venture capital as 'the early stage of financing of new and young enterprises seeking to grow rapidly.' The venture capitalist finances high and new technology-based enterprises whereas the banks or financial institutions generally support proven technologies with established markets. But technology is not a necessary condition for venture financing.

Wan has defined venture capital as 'unsecured risk financing'. The reason being that new, high-tech ventures carry high risk and are also unable to offer suitable collateral for securing capital.

I.M. Pandey has defined venture capital as 'an investment, in the form of equity, quasi-equity and sometimes debt-straight or conditional (i.e. interest and principal payable when it starts generating sales), made in new and untried technology, or high-risk venture, promoted by technically or professionally qualified entrepreneurs', where the venture capitalist:

- Expects the enterprise to have a very high growth rate
- Provides management and business skills to the enterprise

- Expects medium to long-term gains
- Does not expect any collateral to cover the capital provided

6.5.2 Characteristics of Venture Capital — Venture Capitalist

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Venture capital is a power mechanism with the help of which innovative entrepreneurship can be institutionalized. This is done with the venture capitalist and the entrepreneur joining hands. In other words, the venture capitalist and the entrepreneur would act as 'partners' where the venture capitalist not only directly purchases the equity shares of the entrepreneur but also participates in the management of the entrepreneur's business, helps him to protect his investment, increases his investment by actively involving and supporting the entrepreneur. The venture capitalist also gives the entrepreneur his marketing, planning, and management skills and technology to the new firm. He plays the role of a banker, development financier and that of a stock market investor as well. He sees the company growing with the intention to make capital gains by selling the equity shares of the company in future.

6.5.3 Features of Venture a Capitalist

There are no standard terms and conditions based on which venture capital is provided. The following are the main features of venture capital:

- The venture capitalist participates in the entrepreneur's business through direct purchase of shares, options or convertible shares.
- The objectives of venture capitalists are to make capital gains by selling the investment once the enterprise becomes profitable.
- The venture capital firm (VCF) assumes a higher level of risk to make capital gains.
- Venture financing is a long-term illiquid investment where investment can be liquidated in the assisted firm only after a long period, say four to eight years.
- The assisted company bears little financial burden during the first few years.
- The VCF, in addition to the provision of funds, takes active interest in offering guidance to the company in various ways and supports the entrepreneur through all stages of the company's development — monetarily and non-monetarily.

Venture capital financing includes development, expansion and buyout financing for the enterprises, which are unable to raise funds through conservative financing channels. As per the **Pratt's Guide** (1988), VCFs also provide turnaround finance to revitalize and revive sick enterprises.

6.5.4 Eligibility Criteria for Venture Capital Financing

According to Government of India guidelines, the following enterprises are eligible for venture capital financing:

- The size of the total investment should not exceed Rs 100 million
- The technology should be new or comparatively less tried, closely held or taken from the pilot to the commercial stage or incorporating some substantial development over the ones that already exist in India.
- The entrepreneur has comparatively new, technically or professionally qualified persons with insufficient backing or resources for financing the project.

Venture capital excludes financing of enterprises engaged in trading, brokering, and investment of financing services, and agency or liaison work. A venture capital firm in India is required to invest at least 75 per cent of its funds in venture capital activity, and must be managed by professionals.

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6.5.5 Opportunities of Venture Capital Financing

SSIs are increasingly required to operate in open, relatively unprotected markets, often with inadequate policy support intervention. These industries face a number of challenges including unavailability of credit, information access, higher risk perceptions, high cost of credit, adverse economies of scale, high transaction costs for raising equity capital, and so on. On the other side, SSIs are the prime drivers of the economy. They produce a large number of goods and services in the present market and provide high rate of employment. It is recognized that small industries are hampered in their efforts at accessing traditional sources of institutional funding.

6.5.6 Sources of Venture Capital

If any entrepreneur seeks to finance his project/industry through venture capital, he has the following institutions available to him for providing finance:

1. **The EXIM Bank:** The Export-Import Bank of India was set up in 1982 to finance, facilitate and promote international trade in India. It is the chief institution in India which coordinates with other institutions. It entered the fray of VC financing with an investment in the VC fund of the India Technology venture Unit Scheme promoted by UTI. The objective of the fund is to invest in technology sectors such as healthcare, pharmaceuticals, biotechnology, media and entertainment, telecommunication, Internet and IT. The development of export products, direct equity participation in Indian projects abroad, the capital expenditure required to set up software development facilities and working capital, etc., are financed by EXIM Bank.
2. **IDBI's Venture Fund:** IDBI's venture capital fund (VCF) was started in 1986 with an initial capital of Rs 10 crore and forms a division of the technology department of IDBI. It assists high technology, small and medium-sized projects requiring funds between Rs 0.5 million to Rs 25 million (Rs 2.5 crore). It is intended primarily to assist projects that encourage commercial applications for indigenously developed technology or which adopt imported technology for greater application. Novel technology that has not been tested under Indian condtions must be employed by the entrepreneur's project. Financial aid is offered from the pilot stage itself and encompasses nearly 90 per cent of the total cost with promoter's stake to be at least 10 per cent for ventures below Rs 50 lakh and 15 per cent for these above Rs 50 lakh. The assistance is provided in the form of unsecured loans involving minimum legal formalities. IDBI sanctions funds in various fields like electronics, food products, medical equipment, biotechnology, chemicals, computer software etc.
3. **ICICI's Venture Fund:** Industrial Credit and Investment Corporation of India (ICICI) launched a venture capital scheme in 1986 to encourage new technocrats in the private sector in new fields of technology with inherent risk. It provided finance for the development and commercialization of viable indigenous technologies. Under this scheme, ICICI assists projects, with initial investment not exceeding Rs 2 crore in the form of equity or conditional loan with flexible charges and repayment period or conventional loans. Two new schemes were launched by

ICICI. These are the India Fund and the Venture Capital Fund (VCF). In 1988, ICICI floated a new company known as The Technology Development and Information Company of India Limited (TDICI) to design a separate scheme for financing technology in India. ICICI also established with UTI in 1988, a venture capital fund with Rs 20 crore subscribed equally by ICICI and UTI to set up technological ventures which have potential for fast growth. In January 1990, ICICI and UTI jointly launched their second Venture Fund for Rs 100 crore.

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4. **Technology Development and Information Company of India Limited (TDICI):** TDICI is the venture capital fund in India created by the government and operated through IDBI. This is also the largest venture capital firm in India. It provides assistance to industries directly or through venture funds which are managed by it for other institutions and venture funds out of its own resources. TDICI accepts and evaluates the promoter's business plan by knowing his management team, nature of his product, market conditions for his product, competition, his investment requirements etc. TDICI goes through the entrepreneur's business plan, if it finds the plan to be good, and the promoter is clear about his business, his work is almost done, otherwise his project is dropped. TDICI also ventures two capital funds of UTI. TDICI's first venture capital fund of Rs 200 million was subscribed equally by ICICI and UTI. Its second venture fund of Rs1000 million has been contributed by UTI, ICICI, other financial institutions, banks, World Bank, small, medium and large industrial companies in India.
5. **IFCI's Venture Capital:** IFCI sponsored in 1975 the Risk Capital Foundation (RCF), which has been converted into a company known as Risk Capital and Technology Finance Corporation Limited (RCTFC) since January 1988. RCTFC provides finance for high-tech projects in the form of venture capital for technology upgradation and development. It also assists the units which have proved to be innovative and possess the requisite technological and managerial strengths. RCTC's assistance is available in the form of short-term conventional loans or interest free conditional loans allowing profit and risk-sharing with project sponsors, or equity participation.
6. **Gujarat Venture Finance Limited (GVFL):** Under venture capital funds sponsored by financial institutions at the state level is GVFL, which was promoted in July 1990 for the development of innovative products. It shares risk of entrepreneurs by providing financial assistance in the form of equity and quasi equity.
7. **Punjab InfoTech Venture Fund (PIVF):** PIVF is a Rs 200 million, 10 year, close-ended venture capital fund[1] conceptualized and funded by the Punjab State Industrial Development Corporation (PSIDC), Punjab State Financial Corporation (PSFC), Punjab State Electronics Development & Production Corporation Limited (PSED&PC) and Small Industries Development Bank of India (SIDBI).

   PIVF primarily invests in IT firms in Punjab. It usually does so by means of quasi-equity and equity instruments. It seeks to gain returns through capital gains and dividends at the time of disinvestment by means of a negotiated sale of its holding or through an initial public offering. Punjab Venture Capital Limited, an asset management company promoted by the PSIDC in its role as the nodal agency of the Punjab Government, is responsible for managing the Fund.

[1] www.pvcl.org/pivf.htm

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8. **VCFs of Commercial Banks:** Among the Indian banks and many other banks, VCFs have been floated by the subsidiaries of Canara Bank and SBI . These banks provide VCFs either as conditional loans or in the form of equity. SBI invests in equity shares of new and unknown companies. Canara Bank has set up a Venture Fund through its subsidiaries, Canbank Financial Services (Canfine). The ventures they assist are a part of industries such as ceramics, cement and watches.
9. **Private Sector VCFs**
   (a) **ANZ Grindlays Bank:** ANZ Grindlays set up India's first private sector VCF, namely India Investment Fund (IIF) with an initial capital of Rs 10 crore subscribed by NRIs. The fund provides assistance to new issues of recognized firms with a good track record, promoters and projects that carry a high level of risk.
   (b) **Credit Capital VF (India) Ltd. (CCVF):** The second VCF in the private sector in India, CCVF was launched in 1989. It is a joint venture of the Commonwealth Development Corporation of the UK, the Asian Development Bank and the Credit Capital Finance Corporation (a private sector merchant bank in India). It commenced its operations with an initial capital of Rs 10 crore, subscribed by these institutions and the public. It focuses on ancillary and small export oriented units. In addition to capital, 'hands-on' management assistance is provided by it to these ventures.
   (c) **Indus VCF:** IVCF was established with a capital of Rs 210 million subscribed by several Indian and international institutions and companies. The company provides both equity capital as well as management support to entrepreneurs. The company provides venture financing especially to industries such as healthcare, electronics, computers and new, sophisticated consumer products.

6.6 FINANCIAL INSTITUTIONS

In financial economics, financial institutions act as agents providing financial services for their members or clients. Generally, some government authority regulates such financial institutions. Asset management firms, stock brokerages, credit unions, building societies, banks and other similar businesses are some of the common types of financial institutions.

A financial institution functions as an intermediary in the debt and capital markets. It transfers funds from investors to the firms that require them. The flow of funds in an economy is facilitated by it. This is done by pooling the savings so that the risk associated with providing funds for loan is mitigated. This serves as the chief means of developing revenue for depository institutions. In case the yield curve becomes inverse, additional fee-generating services such as prime brokerage and underwriting of securities are offered to these firms.

Commercial banks

The Scheduled Commercial Banks (SCBs) in the country (300) comprise the State Bank of India (SBI) and its associated banks (8), nationalized banks (19), private sector banks (32), regional rural banks (RRBs) (196) and foreign banks (45). During 1994-95, ten more banks were given the status of SCBs and, Bank of Karad which was taken by

Bank of India was excluded. As on 30 June 1999, there were 300 scheduled banks in India with a total network of 64,918 branches.

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For a long period, commercial banks did not come forward to extend financial assistance to the small-scale industries because of the SSIs' weak economic base. The first lead in this regard was taken by the SBI, in consultation with the Reserve Bank of India (RBI), in March 1956 by setting up a pilot scheme for the provision of credit for small scale industries. In the beginning, the scheme was confined to nine branches of the SBI which was later extended to all branches of the SBI. The commercial banks started taking the initiative in financing SSIs in a greater way only after the nationalization of banks in July 1969. Normally, the commercial banks provide assistance for working capital requirements of SSIs. Over the years they have also started providing 'term finance as is indicated by the data compiled by the RBI that of all the advances given to SSIs by the commercial banks, the share of the term loan accounted for nearly 30 per cent. A notable feature in the financing of SSIs has been the introduction of the 'Lead Bank Scheme' by the RBI. Under this scheme, each district has been allotted to one scheduled commercial bank for intensive development of banking facilities.

The introduction of the Credit Guarantee Scheme in 1960 gave a fillip to commercial bank financing to SSIs. Initially, this scheme was introduced in 22 districts on an experimental basis. Later, it was extended all over the country. Further, RBI set up a committee under the chairmanship of Shri P.R. Nayak to look into the adequacy of institutional credit to SSIs. On the basis of the recommendations made by the committee, a special package of measures for financing SSIs was introduced by RBI and banks were advised to take care of sickness in small-sector. Availability of credit to the SSI sector improved further within the sector as the shortfall, if any, was deposited with the Small Industries Development Bank of India (SIDBI). According to the figures released by the Industrial Development Bank of India (IDBI), the outstanding gross bank credit to the industrial sector stood a Rs1,02,953 crore as on 31 March 1995 of which Rs 27,612 crores (27 per cent of total) were given to the SSIs by the commercial banks. It is of interest to note that the bank credit to small sector as a percentage to total bank credit has increased year after year. For example, it increased from 22 per cent in March 1993 to 27 per cent in March 1995.

Other Financial Institutions

1. State Industrial Development Corporations (SIDCs)
2. State Financial Corporations (SFCs)
3. Industrial Reconstruction Bank of India (IRBI)
4. National Small Industries Corporation (NSIC)
5. Small Industries Development Bank of India (SIDBI)
6. Unit Trust of India (UTI)
7. Life Insurance Corporation of India (LIC)
8. Industrial Development Bank of India (IDBI)
9. Industrial Credit Investment Corporation of India (ICICI)
10. Industrial Finance Corporation of India (IFCI)

6.6.1 Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India (IFCI) was set up in July 1948 by the Government of India under the IFCI Act. Before ICICI was established in 1956, followed

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by IDBI in 1964, IFCI was the sole institution that implemented the industrial policies initiated by the Government. It has had a significant role to play in modernizing the Indian industry, promoting exports, substituting imports, controlling the level of pollution, conserving energy and generating commercially feasible viable and market-friendly projects. The following are some of the sectors that have enjoyed direct benefits from IFCI:

a. Infrastructure (telecom services, power generation) and the intermediate and capital goods industry (miscellaneous chemicals, synthetic plastics, synthetic fibres)
b. Basic industry (cement basic chemicals, fertilizers, iron and steel)
c. Service industry (hospitals, hotels)
d. Agro-based industry (sugar, paper, textiles)

The IFCI extends financial assistance to the industrial sector through direct subscription/underwriting to debentures/shares and guarantees, by means of rupee and foreign currency loans, and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire-purchase companies. The financial resources of the IFCI comprise the following three components: (i) Share Capital, (ii) Bonds and Debentures, and (iii) Other Borrowings.

The IDBI, scheduled banks, insurance companies, investment trusts and the co-operative banks are the shareholders of the IFCI. Apart from paid up capital and reserves, the major sources of IFCI are issue of bonds and debentures, borrowings from the Government, the RBI, Industrial Development Bank of India and foreign loans.

Some of the popular schemes of the IFCI are as follows:

(a) Interest subsidy scheme for women entrepreneurs
(b) Consultancy fee subsidy schemes for the provision of marketing assistance to SSIs
(c) Encouraging the modernization of tiny, small-scale ancillary units; and
(d) Controlling pollution in the small and medium scale industries.

The IFCI has shown its growing concern in the development of backward districts. Cumulatively, financial assistance of Rs 462 billion has been sanctioned by IFCI to 5707 concerns and Rs 444 billion disbursed since its establishment. A central role has been played by IFCI in dispersing industries on a regional basis. Some 2172 units situated in backward regions have received roughly 47 per cent of IFCI's assistance, and been aided in catalyzing investments with a value of more than Rs 1,206 billion. Women entrepreneurs and self-employed youth too have received assistance from IFCI under the Interest Differential Fund (IDF) and Benevolent Reserve Fund (BRF) schemes.

The following are the functions performed by IFCI for the development of industries:

a. Providing assistance for institutional infrastructure development.
b. Conducting merchant banking operations from its Head Office in New Delhi and a bureau in Mumbai
c. Helping in improving the productivity of various factors of production for the socio-economic growth of the country.
d. Providing technical and administration assistance.

e. Providing guidance in project evaluation, identification formulation, implementation operation etc.

f. Undertaking research and survey for the sake of industrial development.

g. Advancing loans for various purposes such as underwriting of shares, guaranteeing of deferred payments for machinery.

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6.6.2 Industrial Credit Investment Corporation of India (ICICI)

The ICICI was set up in January 1955 under the Indian Companies Act with the primary objective of developing small and medium industries in the private sector. Its issued capital has been subscribed by Indian banks, insurance companies and individuals and corporations of the United States, the British Eastern Exchange Bank and other companies and general public in India.

ICICI performs the following functions:

i. It provides assistance through direct subscriptions/underwriting to debentures/ shares and guarantees as well as by means of offering rupee and foreign currency loans.
ii. It offers a variety of financial services such as deferred credit, leasing credit, installment sale, asset credit and venture capital.
iii. It guarantees loans from other private investment sources.
iv. It conducts techno-economic surveys for backward areas.
v. It provides credit facilities to indigenous manufacturers.
vi. It provides merchant banking services.

The ICICI has set up ICICI Asset Management Company Limited, and has been operating ICICI Mutual Fund since 1993. It also set up two subsidiaries, ICICI Investors Services Ltd., and ICICI Banking Corporation Limited in 1994. The Second Industrial Credit Project for India provides ICICI a second loan of $10 million to replenish its foreign exchange resources. ICICI was created to assist in the development of private industry in India, to encourage local and foreign private capital participation in its financing, and to assist in the expansion of the Indian capital market.

6.6.3 Industrial Development Bank of India (IDBI)

Prior to 1964, there was no apex organization to coordinate the functions of various financial institutions. Then, V.V. Bhatt pointed out that the country needed a central development banking institution for providing 'dynamic leadership in the task of promoting a widely diffused and diversified and yet viable process of industrialization.'[2] It was to fulfill this objective that the Government decided to establish the Industrial Development Bank of India (IDBI).

The IDBI was established on 1 July 1964 under an Act of Parliament as the primary financial institution in the country. Initially, it was set up as a fully owned subsidiary of RBI. In February 1976, it was made into an autonomous institution and its ownership passed from RBI to the Government of India.

IDBI provides assistance to SSIs through its scheme of refinance and, to a limited extent, through its bills rediscounting scheme. As it is not feasible for the IDBI to reach

[2] V.V. Bhatt, A Decade of Performance of Industrial Development Bank of India, Commerce, Annual Number, 1974, p.151.

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a large number of small-scale industries scattered all over the country, the flow of its assistance to this vast number has been indirect in the form of refinancing of loans granted by the banks and the State Financial Corporations (SFCs).

The IDBI has shown particular interest in the development of small scale industries. Of particular mention is the setting up of the Small Industries Development Fund (SIDF) in May 1986 to facilitate the development and extension of small-scale industries. In 1988, the IDBI also launched the National Equity Fund Scheme (NEFS) for providing support in the nature of equity to tiny and small-scale industries engaged in manufacturing, with a cost not exceeding Rs 5 lakh. The scheme is administered by the IDBI through nationalized banks. The IDBI has also introduced the 'single window assistance scheme' for grant of term-loans and working capital assistance to new tiny and small scale enterprises. Last, the IDBI has also set up a Voluntary Executive Corporation Cell (VECC) to utilize the services of experienced professionals for counseling small units, tiny and cottage units and for providing consultancy support in specific areas.

During 1987-88, the IDBI sanctioned assistance worth Rs 1,511 crore to small-scale industries out of total sanction of Rs 4, 580.60 crore. It means about one-third of total industrial assistance was given to the small-scale sector alone. In order to make the IDBI's coordinating role more effective, the Narasimham Committee[3] has suggested that the IDBI should give up its direct financing function and perform only promotional apex and refinancing role in respect of other institutions like SFCs and SIDBI, etc. The direct lending function should be entrusted to a separate finance company, especially set up for this purpose. IDBI being a financial institution is involved in funding viable projects in different sectors. It has exposure to the textile sector, which is the largest after the steel sector.

IDBI provides the following assistance for the development of industries:

(a) Direct assistance to industrial concerns in the form of underwriting of shares debentures.

(b) Soft loans for modernization, renovation and replacement of existing industry.

(c) Rediscount bills arising out of sale of indigenous machinery on deferred payment.

(d) Financing export-oriented industries.

6.6.4 Life Insurance Corporation of India (LIC)

The Life Insurance Corporation of India (LIC) was established under the LIC Act in 1956 as a fully owned corporation of the Indian Government when the life insurance business was nationalized in India. LIC offers a variety of insurance policies to extend social security to various segments of society. It has been deploying its funds in accordance with plan priorities. As per its investment policy, it invests 75 per cent and above of the accretion to its controlled fund in Central and state government securities including government-guaranteed marketable securities and in the socially oriented sectors. It also provides loans for various purposes like housing, water supply, rural electrification, etc. to benefit individuals and groups. LIC also provides term loans and direct subscription/ underwriting to the debentures and shares of the corporate sector.

[3] Report of the Committee on the Financial System (Narasimham Committee), Government of India, New Delhi, 1991.

LIC provides the following financial assistance to industries:

a. It liaisons with other all-India financial institutions for providing finance directly to the industries.
b. It provides underwriting support to industrial concerns.

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6.6.5 Unit Trust of India (UTI)

Established in 1964 under an Act of Parliament, Unit Trust of India (UTI) mobilizes the savings of small investors by selling units and channelizing them into corporate investments. Over the years, UTI has introduced a variety of schemes to meet the needs of diverse sections of investors. Support is also provided by UTI to the corporate sector in the form of direct subscription/underwriting to debentures/shares and term loans. In 1994-95, the UTI launched nine new schemes/plans aimed mainly at common investors. These, among others, included open-ended schemes like Grihlakshmi Unit Plan, Retirement Benefit Plan, Primary Equity Fund, Unit Scheme 1995 (targeted at corporate investors) and Columbus India Fund.

It provides the following assistance for the development of industries:

(a) It subscribes to industrial securities and also to purchase outstanding securities in the secondary market.
(b) It is governed by considerations of yield and security as it has an obligation to earn a reasonable rate of return for its holders in its various schemes without exposing customers to undue risk.

6.6.6 Small Industries Development Bank of India (SIDBI)

With a view to ensuring larger flow of non-financial and financial assistance to the small-scale sector, the Government of India set up SIDBI under a special Act of Parliament in October 1989 as a fully owned subsidiary of IDBI. The Bank commenced its operations from 2 April 1990 with its head office in Lucknow. SIDBI has taken over the outstanding portfolio of IDBI that relates to the small-scale sector worth over Rs 4,000 crore. The authorized capital of SIDBI is Rs 250 crore with an enabling provision to increase it to Rs 1,000 crore.

The important functions of SIDBI are as follows:

1. To initiate steps for technological upgradation and modernization of existing units.
2. To expand the channels for marketing the products in the SSI sector in domestic and international markets.
3. To promote employment oriented industries especially in semi-urban areas and to create more employment opportunities and thereby check the migration of people to urban areas.
4. To refinance loans and advances extended by primary lending institutions.
5. To discount and rediscount of bills
6. To extend risk capital or soft loan assistance to industries
7. To extend financial support to SSIDC and NSIC

The SIDBI's financial assistance to small-scale industries is channelized through the existing credit delivery system comprising State Finance Corporations, State Industrial Development Corporations, commercial banks and regional rural banks. The SIDBI introduced two new schemes during 1992-93; Equipment Finance Scheme for providing direct finance to existing well-run small-scale units taking up technology upgradation/

modernization and refinance for resettlement of voluntarily retired workers of NTC. The other new scheme launched was Venture Capital Fund exclusively for small-scale units, with an initial corpus of Rs 10 crore. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Industries Corporation for providing leasing, hire-purchase and marketing support to the industrial units in the small-scale sector.

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6.6.7 National Small Industries Corporation (NSIC)

NSIC was set up in 1955 as a public undertaking. It was established mainly to develop small scale industries in the country.

The following are the various functions performed by NSIC for the development of small scale industries:

1. Procuring government orders for small scale units to provide work to small scale industries
2. Developing the small scale industries as ancillaries to large industries.
3. Developing and upgrading technology particularly for projects based on wastes.
4. Importing and distributing scarce raw materials, components and parts among actual users in the small scale industries.

6.6.8 Industrial Reconstruction Bank of India (IRBI)

The Government of India set up Industrial Reconstruction Corporation of India (IRCI) in April 1971 under the Indian Companies Act mainly to look after the special problems of 'sick' units and provide assistance for their speedy reconstruction and rehabilitation. In August 1984, an Act was passed by the Indian Government, which converted the Industrial Reconstruction Corporation of India (IRCI) into the Industrial Reconstruction Bank of India (IRBI).

The following are the various functions performed by IRBI for the development of small scale industries:

1. To function as the primary all-India reconstruction and credit agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns.
2. To extend assistance to sick small-scale units (formerly IRCI had extended assistance to sick closed industrial units in textiles, engineering, and mining industries).
3. To provide consultancy services, merchant banking, hire-purchase and equipment leasing for the rehabilitation of sick industrial units.
4. To help banks and financial institutions assess intrinsic worth of sick units which are seeking assistance for revival.

Check Your Progress

10. What are the features of venture capital?
11. What are the eligibility criteria for venture capital financing?
12. Describe the role of the EXIM Bank.
13. What is the role of financial institutions in providing financial assistance to projects? Name some financial institutions that are providing finance to SSIs.

6.6.9 State Financial Corporations (SFCs)

The State Financial Corporation was set up on 28 September 1951 under an Act of Parliament to provide financial assistance to as high a number of small-scale units as possible. The Punjab government took the initiative to set up the first SFC in India in 1953. Today, there are 18 SFCs in the country which exist almost in every State and Union Territory (UT) in India. Of these, 17 were established under the SFCs Act of 1951. The Tamil Nadu Industrial Investment Corporation was set up in 1949 under the

Companies Act as the Madras Industrial Investment Corporation and it operates as a full-fledged SFC. The management of the SFC is similar to that of the IFCI. It has a board of directors, a Managing Director and an Executive Committee. A SFC can open its offices in different places within the State.

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The following are the main functions performed by SFC for developing industries in the State:

a. To provide long-term finance to small and medium sized industries units
b. To undertake the issue of debentures, bonds, Chares and stock of industrial concerns.
c. To grant loans and advances to industrial concerns that are to be repaid within 20 years.
d. To subscribe debentures floated by the industrial concerns.
e. To grant financial assistance to small road transport operators, hotels, tourism-related activities, hospitals and nursing homes, etc.,

6.6.10 State Industrial Development Corporations (SIDCs)

SIDCs were incorporated under the Companies Act of 1956, in the 60s and early 70s as wholly-owned State Government Undertakings for promoting industrial development. There are 28 SIDCs in the country.

The following are the functions of SIDCs for the development of industries:

(a) Providing aid through direct subscription/underwriting to debentures/shares and guarantees or term-loans.
(b) Undertaking a variety of promotional activities such as developing industrial estates, conducting entrepreneurship development programmes as well as industrial potential surveys and preparing feasibility reports.
(c) Assisting in plant locations, coordinating with other agencies and providing guidance.
(d) Providing mutual funds, venture capital, merchant banking and equipment leasing services.

6.7 SUMMARY

Project Finance means arranging finance to meet the requirements of project expenditure including start up expenditure. It is to meet the financial requirements of every stage of the project.

Project Finance is required to meet both the short term and long term needs of the project. Short term needs are day-to-day operations requirements that are satisfied by working capital. Long term needs are acquiring fixed assets such as machinery, plant and buildings.

Types of finance are the various ways of making finance available to the project. What the means of finance are to satisfy a particular need of project requires an understanding of the project operations and different activities of project and its span of time and size.

The sources of finance are broadly classified as internal and external. Internal sources are general reserves, sale of assets, reduction of cost, promoters contribution etc. These meet the short term financial requirements of project. The external sources are to meet the long term needs of project. Some of the external sources are equity, debt.

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Venture capital refers to financial investment in a proposal that carries a high degree of risk that is made in the hope that high rates of return will be earned. It is generally considered synonymous to high risk capital.

Various financial institutions have been established by the Central Government by Acts of Parliament for the development of industries. Financial institutions are discharging number of functions and coming up with new schemes from time to time to help women entrepreneurs and regional balance development. These financial institutions are IFCI, ICICI, IDBI, LIC, UTI, SIDBI, NSIC, IRBI, SFC, and SIDC.

6.8 KEY TERMS

- **Operating cycle:** The average time between the purchase and acquisition of inventory and the receipt of cash proceeds from it being sold.
- **Seed capital:** A securities offering in which one or more parties having certain connections with a novel company invest the financial resources required for starting the business.
- **Debentures:** Certificates of loan agreements given under a company's stamp.
- **Venture capital:** Financial investment in a proposal that carries a high degree of risk.

6.9 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Project finance means arranging finance to meet the requirements of project expenditure including start up expenditure. Without project finance, an entrepreneur cannot meet the financial requirements of every stage of the project.
2. The need of finance in a project starts at the inception stage to meet the start-up expenses such as licensing fee, documentation fee on loans, site registration and stamp duty charges, site development cost, power connection, water supply charges etc. Finance is also needed to acquire fixed assets such as machinery, plant and building as well as working capital to meet the day-to-day operational needs.
3. Short term need for finance is to meet the day-to-day operations of project. Long term need for finance is for a long period of time and for acquisition of fixed assets.
4. Venture capital refers to financial investment in a proposal that carries a high degree of risk that is made in the hope that high rates of return will be earned. It is generally considered synonymous to high risk capital. Capital is provided by venture capital funds, which are prepared to finance an untried company that appears to have promising prospects.
5. It is another type of finance generally used by the projects for acquiring assets on hire purchase basis. It means that ownership rights will not be transferred to the owner until he pays the last installment. Most small businesses opt for hire purchase because of the flexibility it offers in getting the required machinery and vehicles. Flexibility in repayment in a hire purchase contract is attractive for a business that is just commencing and has numerous demands on its cash flow. It may enjoy

some tax deductions for interest charges and depreciation in hire purchase contracts.

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6. This financing option is suitable for a business that accounts for its operations on a cash basis. Its functioning is similar to hire purchase agreements: series of monthly payments are made by customers, followed by a balloon payment.
7. Uses of the cumulative reserves of project, reduction of cost and sale of assets are some of the internal sources of finance, which have reduced the cost of capital. It is easy to access when the project needs finance.
8. It is one of the important external sources of finance and provides long term finance to a project. Limited companies raise their funds from the capital market by shares. It generally comes from individual investors, firms engaged in project promotion through sponsoring the project, manufacture of equipment and machinery, and from institutional investors such as energy investment funds that are expected to have some form of capital stake in the project or insurance companies.
9. It is one of the main types of finance, essentially required to build optimum capital structure. Debt finance means borrowing loans from commercial banks, financial institutions and money lenders for a period of time on fixed rate of interest. It is essentially required to construct an optimal capital structure.
10. The venture capitalist participates in the entrepreneur's business through direct purchase of shares, options or convertible shares, gains by selling off the investment once the enterprise becomes profitable, high degree of risk to make capital gains, long-term illiquid investment, support the entrepreneurs in all the stages of the company's development.
11. The size of the total investment should not exceed Rs 100 million. The technology should be new or comparatively less tried, closely held or taken from the pilot to the commercial stage or incorporating some substantial development over the ones that already exist in India.
12. Export-Import Bank of India was set up in 1982 to finance, facilitate and promote international trade in India. It coordinates with other institutions. It entered the fray of VC financing with an investment in the VC fund of the India Technology venture Unit Scheme promoted by UTI. It provides funding to various sectors like IT, Internet, telecommunication, media and entertainment, biotechnology, pharmaceuticals and health.
13. In financial economics, financial institutions act as agents providing financial services for their members or clients. A financial institution functions as an intermediary in the debt and capital markets. It transfers funds from investors to the firms that require them. The flow of funds in an economy is facilitated by it. State Industrial Development Corporations (SIDCs), State Financial Corporations (SFCs), National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI), Industrial Development Bank of India (IDBI), Industrial Credit Investment Corporation of India (ICICI) and Industrial Finance Corporation of India (IFCI) provide financial assistance to SSIs.

6.10 QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Describe project finance.
2. What is the need of finance?
3. What is short term finance?
4. What is long term finance?
5. What is receivables finance?
6. What is angel funding?
7. What is venture capital?
8. What is hire purchase?
9. What is chattel mortgage?

Long-Answer Questions

1. What is an external source of finance? Describe the various external sources of finance for project funding.
2. Define venture capital. Describe the various sources and opportunities of venture capital financing.
3. State the need for institutional finance for small enterprises. Which are the institutions providing institutional support to small enterprises/entrepreneurs?
4. Give an account of financial assistance provided by the IFCI to small entrepreneurs/ enterprises in India.
5. What are the functions of SIDBI? Discuss the various types of assistance that SIDBI provides to the small scale sector.
6. Write short notes on the following:
   (a) IDBI
   (b) EXIM Bank
   (c) Life Insurance Corporation of India (LIC)
   (d) Unit Trust of India (UTI)
   (e) IRBI
   (f) SFCs

6.11 FURTHER READING

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UNIT 7 SUPPORT AGENCIES

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Structure

7.0 INTRODUCTION

The economic development of a country depends on various factors, the chief among them being industrialization and the Government's interest towards industrial development and its support. Through its Five Year Plans and industrial policies, the Government of India has concentrated on industrial development and supported the purposeful development of small scale industries, which constitute an integral part of the industrial structure of both the developed and developing countries in view of their capacity to provide gainful employment opportunities and contribute to the production of output and services. Nowadays, almost all countries consider investment in plant and machinery, i.e., fixed capital, as the yardstick to define a small industry. Small scale industries have the potential to attract the maximum amount of skill and entrepreneurial talent in the country and have become a factor for promotion of economic democracy. This they do by allowing profits from industrial growth to be distributed over a broader section of the people. That is how they came to acquire a prominent place in the development plan of most countries. Hence, promotion of small manufacturing enterprises has been one of the main strategies of economic development in developing countries.

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Small scale units help to decentralize industry, spread entrepreneurship and develop local resource endowment. They neutralize the augmentation of industrialization, and steer a balanced regional development. This sector also helps in creating employment opportunities on a dispersed basis, bringing about more equitable distribution of income and wealth. By and large, small industries are individual enterprises that normally mature into public institutions and promote national development. In this development, individuals cannot obviously finance small-scale industries' growth effectively. Financing of industries has always been a difficult problem in most countries and has attracted the attention of bankers, industrialists, economists, governments and financial institutions. Separate agencies are required to understand various problems such as guidance, finance and technology in promotion and development of small scale industries. This unit focuses on the need for support to entrepreneurs, and the support provided by DIC, SIDBI, SIDCO, SSIB, NSIC, SISI, RDCs and other institutions. It also examines the promotion of entrepreneurs though various schemes.

7.1 UNIT OBJECTIVES

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

- Understand the need for support agencies
- Understand the role of the District Industries Centre in industrial support and development
- Understand the significance and functions of various support agencies such as SIDBI, SIDCO, SSIB, NSIC, and SISI
- Understand the various schemes launched by the government to promote entrepreneurship.

7.2 NEED FOR SUPPORT

Global economic slowdown has resulted in nearly two lakh small and medium enterprises (SME) throughout India facing the danger of ending up as sick units by 2009–10, according to Chandrakant Salunkhe[1]. Approximately 1.14 lakh SME were declared sick in 2007–08 and it was probable that the number would go up in the following fiscal year. Overseas clients in Europe and North and South America were cancelling their orders with SME units, the impact of which was likely to be felt more after March 2009. He also said that sectors such as equipment manufacturers, food manufacturing and processing and auto components would be the worst sufferers. Analysing the problems faced by companies during recession, he stated that SMEs were also having to face other obstacles such as lack of information and knowledge regarding the variety of schemes announced by RBI and the Government, lack of marketing assistance and lack of funds. He further drew attention to the Indian SME segment employing, on an average, one million persons annually, and which would probably encounter more layoffs in the following fiscal year.

In spite of RBI and the Government announcing numerous measures for providing more loans to the SME section, it has been observed that frequently, at the grass root

[1] President, Small and Medium Enterprises (SME) Chamber of India, '2 Lakh Small Medium Units may turn sick on slowdown' *Business Line*, dated: 24 December 2008 p. 5.

level, banks and financial institutions remain unaware of such schemes and fail to guide and support the entrepreneurs.

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Though economic recession in the fiscal year 2008-09 may be one of the causes for two lakh SMEs throughout India being in danger of ending up as sick units, there are other factors to be considered such as lack of support. Enterprises need consistent support for development. The Government of India has realized this and promoted a number of entrepreneurial support agencies and banks. However, it is clear that the existing support is not enough. Entrepreneurship needs maximum support and guidance from separate institutions and government agencies for purposes of:

1. Selection of industry
2. Location of plant
3. Procurement of raw material
4. Determination of size of manpower requirement (skilled, semi-skilled and un-skilled)
5. Generation and management of working capital
6. Knowledge of marketability of goods and services
7. Knowledge of sales tax and central tax
8. Knowledge of bookkeep and accountancy
9. Knowledge of transportation and warehousing facilities
10. Knowledge of licensing and Government permissions

7.3 OVERVIEW OF SUPPORT AGENCIES

Small Scale Industries is a comprehensive term used to refer to the manufacturing activity carried out in relatively small establishments. Smallness refers to the scale of operations of the industry. Small industries constitute a central part of the industrial structure of both developed and developing countries in view of their capacity to provide lucrative employment opportunities and contribute to the production of goods and services. Small Scale Industries use indigenous technology and provide employment opportunities to the local people. This is done with a view to avoiding the augmentation of industries and controlling the migration of people. These industries also help in equal distribution of income and wealth. Small-scale industries have the potential to attract the maximum amount of skill and entrepreneurial talent in the country and become a factor for promotion of economic and social equality, by allowing profits from industrial growth to reach a diverse section of the people. That is how small scale industry came to acquire a prominent place in the growth plan of developed and developing countries. In developing countries like India promotion of small scale enterprises has been one of the main strategies for economic development.

By and large, small industries are mostly individual enterprises that provided all goes well with them and they show healthy and sustained growth, ultimately mature into public institutions and promote national development. Whereas individuals cannot obviously finance small-scale industry growth effectively, financing of small industries has always been a complex problem in most countries and has attracted the attention of bankers, industrialists, economists, governments and financial institutions. The main financial problems of small industries may be categorized as follows:

1. Lack of promoter's capital
2. Fewer alternatives for obtaining short-term loans

3. Complexity in obtaining long-term loans to supplement insufficient equity capital

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Various policies have been adopted by developing as well as highly industrialized countries to overcome these problems. Banks and stock exchanges are better organized, various special financial institutions have been established, international financial institutions and foreign private capital are assigned a greater role and government is also taking greater interest in this sector.

Small enterprises require finances in various stages of developing a business idea into a production or service unit. Small industries invariably experience chronic shortage of working funds in the production stage because of insufficient short term funds. Financial requirements could be classified into tangible and intangible investments. Tangible investment comprises current assets and fixed assets. Current assets are normal cash balance, inventory, customers' accounts and miscellaneous current assets. Fixed assets include furniture and fixtures, tools, machinery and equipment, land and building, and other miscellaneous fixed assets. Intangible investment is required for promotional expenses, organizational expenses, operating losses other than depreciation up to the time when the business will be financially self-sustaining, cost of financing as also intangible assets such as patents, goodwill and copyrights purchased for cash.

Estimating a small industry capital expenditure requirement is not easy; assumptions have to be made under conditions of great uncertainty. The cost of capital in a small industry is relatively high. The total capital requirement depends upon the type of business. The quantum of working capital needed is usually dependent upon the length of the period of manufacture, the cost of the product, rate of turnover of inventory and also seasonal fluctuations. Small Scale Enterprises not only need financial assistance but also need support and guidance from government agencies, to bring their idea into reality and to run the enterprise profitably. The Government of India as well as State Governments have launched various support agencies such as **DIC, SIDBI, SIDCO, SSIB, NSIC** and **SISI**. Let us examine the role of these support agencies in Small Scale Industries promotion and development.

7.3.1 District Industrial Centre (DIC)

The Industrial Policy Resolution of 1977 proposed the setting up of a District Industries Centre in each district headquarters of India. Based on the recommendations the District Industries Centre was established in 1978 and it became a landmark in the development of small and cottage industries in India. The main objective of the DIC was to provide all the services and support required by small and cottage entrepreneurs under a single roof. It means that the entrepreneurs who previously had to go to different agencies for assistance/guidance, finance, training, technical advice, would now be provided with all these services in one place. Presently there are 422 DICs, functioning in 431 districts in India.

Structure of DICs

The DIC structure consists of:

- A General Manager
- Four Functional Managers:
    i. Economic and Investigation
    ii. Credit

iii. Village Industries

iv. Raw material/Marketing/Training

- Three Project Managers (to provide technical services in the area relevant to the needs of the districts concerned).

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The structure is the same in all the DICs in our country. DICs coordinate with all the central and state government organizations concerned with promoting and developing cottage, village and small scale industries and provide prominent services to entrepreneurs.

Functions of district industries centre

The DIC performs the following functions to promote and develop village, cottage and small scale industries in the concerned district.

1. **Conducting motivation campaigns:** From time to time, DIC conducts motivation campaigns throughout the district to identify and motivate the aspirant entrepreneurs. The DIC takes steps to design a programme to cover all the government schemes and inform them of the criteria for application.
2. **Industrial surveys:** This is one of the important functions of DIC. It conducts industrial surveys to assess industrial potential in the district keeping in view the availability of raw materials, human skills, infrastructure, supply and demand, etc. DIC prepares techno-economic studies, to find out the technological and economical feasibility of a project/services and works out cost estimates to launch the product or services. On the basis of studies and estimates of investigation it provides investment advice to entrepreneurs.
3. **Achievement plans:** DIC is concerned about the development of industries in districts. Hence after conducting motivational campaigns and industrial surveys, it prepares achievement plans. These plans are coordinated with the District Credit Plans of the lead bank. A lead bank is a bank which is identified by the government in the concerned district based on various aspects.
4. **Industry registration:** DIC provides provisional and permanent registration to new entrepreneurs.

   Provisional registration: Provisional registration is given to an entrepreneur to take all necessary steps to bring the unit into existence. It is awarded for a period of two years in the first instance and can be renewed every year thereafter. But renewal cannot be done more than twice. Provisional registration enables entrepreneurs to:

   - Apply local authorities such as corporation, municipality and gram panchayats to construct building for establishing the unit.
   - Apply for plot/shed (location) in industrial estate.
   - Apply for minimum amenities such as power and telephone connection.
   - Apply to financial institutions/banks to get financial aid.
   - Apply for State Sales and Central Sales Tax Registration.
   - Apply to NSIC and other institutions to buy machines.

   Permanent registration: Once the installation work is over, the entrepreneur may apply for permanent registration. On getting the permanent registration, the entrepreneur is entitled to get the following facilities:

   - He can apply for scarce raw material on concessional rates from government sources
   - He can apply for marketing his products through government agencies

Check Your Progress

1. Why do small scale industries play a prominent role in the economic development of a country?
2. What are the advantages in promoting small scale industry
3. Why should support agencies promote and develop entrepreneurship?

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However, registration of a new unit is not compulsory. But registration will help the entrepreneur to avail certain facilities which are not otherwise provided.

5. **Assist in obtaining credit:** Being an entrepreneurial support agency, DIC recommends loan applications to banks and financial institutions and assists in obtaining credit. DIC liaisons with banks and financial institutions in favour of industries and monitors flow of credit to industries in the district.
6. **Provide guidance and assistance:** DIC provides guidance and assistance to entrepreneurs in identifying appropriate machinery and equipment, and finds sources of supply for machinery and also importing machinery. It also ascertains raw material requirements and their sources, arranges bulk purchase of raw materials and interacts with various authorities for the supply of scarce and critical raw material.
7. **Recommending applications:** DIC recommends applications of entrepreneurs to various organizations. For example, dealing with Electricity Board to get power connection, power tariff concessions and subsidies.
8. **Organize fairs and exhibitions:** DIC encourages the small scale industry units to participate in International Trade Fairs by providing free space for displaying their products. It helps entrepreneurs become quality conscious and to grab the opportunity to export their products.
9. **Help in marketing products:** DIC from time to time collects marketing information and organizes marketing outlets, keeps liaison with government procurement agencies, assesses the possibilities of export and ancillarisation and suggests appropriate marketing strategies to entrepreneurs.
10. **Organize training:** To enrich the entrepreneurs' skill and knowledge, DIC conducts training programmes for artisans and identifies opportunities and project for the trainees.
11. **Entrepreneur Development Programme (EDP):** To provide knowledge and to increase the skills of entrepreneurs in different areas of operations, DIC conducts EDPs in association with various organizations.

7.3.2 State Industries Development Corporations (SIDCO)

The State Industries Development Corporations were set up in various states under the Companies Act, 1956 to provide the primary development needs of tiny, small, village and cottage industries. In Andhra Pradesh, the Small Industries Development Corporation Ltd (SIDCO) was set up in 1960 for promoting and developing small scale industries in the state.

SIDCO has been working actively since its inception and is engaged in the following:

1. **Industrial Estates design and promotion:** SIDCO is constructing industrial work sheds with all infrastructural facilities such as roads, power and lights, water supply, drainage facilities etc. in selected locations. It also caters to the development of plots in various industrial estates. To meet the needs of rural artisans and unemployed youth SIDCO in Andhra Pradesh has constructed tiny sheds in various locations. SIDCO is counseling, aiding and assisting entrepreneurs to exploit the potential in a particular area.
2. **Cater Marketing Assistance:** On behalf of small scale units SIDCO participates in the tenders proposed by government departments and acquires orders for them. SIDCO has taken the initiative to organize the Buyer-Seller Meet so that the government department will be aware of the SSI

products and also to give an opportunity to SSI units to know the actual demand of the departments. To serve SSI consistently, SIDCO participates in the Director General of Supplies and Disposal (DGS&D) tender on behalf of SSI units.

3. **Work as Recognized Export House:** The State Government has recognized SIDCO as an export house of the State. As a recognized export house SIDCO identifies potential industrial units supplying export-worthy products and prospective buyers abroad. SIDCO also makes contracts with overseas importers and their agents in India and assists SSI units in exporting their products. SIDCO also participates in International Trade Fairs and exhibits the products of SSI units.
4. **Balanced Regional Development:** SIDCO has been working for industrial development in backward areas for the balanced regional development. In order to develop the backward areas industrially and to provide employment to rural educated unemployed youth SIDCO constructs industrial estates in rural areas. SIDCO also constructs separate industrial estates for women and for NRIs in various parts of the state.
5. **Hire Purchase and Equipment Leasing Scheme:** Under this scheme, SIDCO provides a package assistance of the allotters of sheds at industrial estates for the supply of machinery and equipment. Under this scheme the machinery and equipment ownership rights are transferred to the allotter after he has paid the last installment.

7.3.3 Small Scale Industries Board (SSIB)

In 1954, the Government of India constituted the Small Scale Industries Board (SSIB), which is the apex body constituted for advising the Government on all matters associated with the development of small scale industries. The Minister for Small Scale Industries, Government of India is the chairman of the Board. The Board consists of 50 members, who represent the Central and State Governments, RBI, State Bank of India, industry associations, public sector undertakings and financial institutions.

The small scale industries development work involves dealing with various Central Government as well as State Government departments. The SSIB's main task is to facilitate coordination and linkage between various agencies/ departments engaged in the development of small scale industry.

7.3.4 National Small Industries Corporation (NSIC)

In 1955, to encourage the growth of small scale industry in different parts of the country, the Government of India set up the National Small Industries Corporation (NSIC). It is an ISO 9001:2000 certified company. NSIC operates through nine regional offices with the support of 21 branch offices and 26 sub offices for cluster development along with eight technical services and extension centres that have the backing of over 500 professionals scattered throughout the country. NSIC also operates from its offices in Dubai and Johannesburg to serve the regions of Gulf and Africa.

Since its inception, NSIC has been serving the small scale industry, mindful of the industrial resolution polices and government industrial development plans in various Five Year Plan programmes.

NSIC has demonstrated its strength within the country and abroad through the promotion of quality consciousness, the enhancement of exports of products and projects

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from small-scale enterprises, strengthening the linkages with medium and large scale enterprises, upgradation of technology and modernization of the production process and delivery. Newer opportunities and challenges for small and large businesses have been thrown up by the twenty-first century. With the world becoming an increasingly smaller and furiously competitive market place (not only physical but also a virtual market place), SSI activities too have become increasingly more challenging. It recognizes these challenges and to enable the small scale units to gain competence advantage and to contribute effectively to the development of economy, the corporation has restructured its activities for meeting the dual challenges of competition and growth in the small scale industries sector. A more focused sectoral approach has been adopted by it aimed at tangibly contributing to SSI growth and competence building.

The wide range of services provided by NSIC is basically promotional in nature. It means that NSIC services are focusing on getting the machinery and equipment on hire purchase basis.. The main functions of NSIC are described in the following sections.

Supply of machines on hire purchase basis

The NSIC supplies machines on hire purchase basis to small scale industries located in various parts of the country. Under this function NSIC takes upon itself the entire purchase procedure, starting from locating competent suppliers to delivery of machines. NSIC obtains clearance from Director General of Industries in case of imported machines, to arrange foreign exchange, obtains import license , opens letter of credit and looks after customs requirements and clearance of machines. NSIC not only supplies machinery for the new industrial establishment but also for replacement of outdated or obsolete machinery as well as balancing equipment to increase productivity. Through its equipment leasing scheme, Small Scale Industrial units can procure industrial equipment for modernization, expansion and diversification.

Other functions of NSIC

Some of the other functions of NSIC include the following:

- Procurement, supply and distribution of indigenous and imported raw materials
- The development of export-worthiness of small-scale units and encouraging the export of small scale industries' products
- Giving equal priority to the enlistment of competent units and facilitating their participation in Government
- Stores Purchase Programmes providing training in several technical trades
- Motivating small scale units on technological upgradation through Software Technology Park and Technology Transfer Centres
- Acting as mentor to small scale units and providing advisory services
- Setting up small-scale industries in developing countries on turnkey basis and other areas of services and international co-operation.

Marketing supply programme of NSIC

Marketing has become an essential entrepreneurial function. Small industries have to face challenges in marketing their services and goods and consequently, need institutional support. NSIC has formulated a number of programmes for SSIs in the marketing sector, both within and outside the country.

(a) NSIC has been assisting those SSIs that are capable of manufacturing quality products, but are constrained by limited financial resources or lack of broad equity and credibility.

(b) NSIC has been acting as a nodal agency to SSIs for bringing them closer to the several governmental purchasing agencies.

(c) The Government, along with its agencies, has been purchasing several kinds of services and products produced by SSIs

7.3.5 Small Industries Service Institute (SISI)

SISIs were set up by the Government of India to provide consultancy in the areas of project plan preparation and execution and training to small entrepreneurs. There are 28 SISIs working across the country. The major functions of SISI are:

Technology adoption advisory service:

- Providing advice for required suitable technology in setting up of new small scale units, assisting in the design of choice of machinery, layout, installation and operation of plant and machinery.
- Assisting in preparation of design and drawings for production equipment and accessories to improve production process.
- Providing technical guidance on the proficient use of raw materials, utilization of substitutes, waste and scrap.
- Providing technical assistance and guidance in design and development of new products.

Workshop and Laboratory Services: Every SISI has its own workshop, laboratory and showroom. The intention of having these is to provide on the job training both in theory and practice to small entrepreneurs in a systematic way so as to strengthen their knowledge and skills. With these facilities SISI provides the following services:

- Common service and tool room facilities
- Experiments and laboratory analysis on new and substitute raw materials
- Assistance in testing raw materials and new products before their release into the market

1. **Consultancy Services on Functional Management:** SISI has adequate capabilities to provide guidance on functional management services by suggesting proper methods of industrial management, including cost reduction, production management, marketing of products, human resource planning and development, etc.
2. **Training Services:** SISI and the extension centres provide training services to the workers of small scale units in certain trades such as machine shop practice, tool and die making, welding, electroplating, wood working, assembling, fittings, etc. SISI and the extension centres provide not only training to workers but also to foremen of small scale units on ad hoc basis as well as on an organized basis.
3. **Balanced Regional Development Services:** SISIs focus their activities on balanced regional development by promotion of entrepreneurship and development of small scale industry in rural and underdeveloped areas. SISIs develop entrepreneurship in backward regions by organizing training programmes for educating youth such as engineers, graduates, students,

Check Your Progress

4. What are the main financial problems facing the small scale industry?
5. Describe the structure of the DIC.
6. List the functions of the DIC.
7. List the various activities of SIDCO.
8. What is the major function of SSIB?
9. Describe the functions NSIC.
10. What is the role of SISI in promotion and development of small industries?

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ex-servicemen etc. and especially people from backward, rural, tribal and hill areas.

4. **Economical Development Services:** SISIs are intended to provide economic services to small scale units. The various economic development services provided by SISIs are:
   - Surveys of particular industries and areas and recommendations for development programmes
   - Market surveys for industrial enterprises for optimum utilization of their time on production quality maintains
   - Market information in selected areas for purpose of dissemination.

7.3.6 National Productivity Council (NPC)

NPC is an autonomous body which provides the following services for the promotion of small scale industries.

- Consultancy in all areas about the feasibility of the project
- Training to prospective entrepreneurs on various matters related to managing an enterprise
- Carrying out market surveys for state governments
- Post-investment service in areas such as increasing productivity

7.3.7 National Research Development Corporation (NRDC)

The NRDC was established in 1953 as a non-profit organization by the Government of India. It was set up to develop and exploit local know-how, inventions, patents, and processes emanating from research and development institutions in India.

The functions of NRDC are as follows:

1. **Transfer of Technology:** NRDC releases to the interested entrepreneurs, technologies, patents and processes developed in various R&D institutions in India.
2. **Development of Projects:** NRDC finances up to 50 per cent of the expense that goes into filling the gap in existing technologies, making laboratory know-how suitable for commercial exploitation, establishing demonstration units, setting up building prototypes, pilot plants, etc. .
3. **Appropriate Technology Development and Promotion:** NRDC endeavours to carry appropriate technology to poorer sections of the rural and semi urban population. It establishes demonstration units in suitable locations for popularization of its need based technologies. For example, it developed and introduced a pedal-operated machine that can produce leaf cups from leaves. This has provided employment opportunities.
4. **Export of Technology:** Through its technical information system, NRDC collects and disseminates information regarding Indian technologies and transfers them abroad.
5. **Guidance to Entrepreneurs:** Its publication titled *NRDC Processes* provides a list of technologies/processes available to entrepreneurs periodically. The printed list of processes and the technical notes are widely published and given free of cost to entrepreneurs.

6. **Turnkey Services:** NRDC offers proven technologies to entrepreneurs on a turnkey basis giving the necessary guarantee for yields, quality of the products, consumption of raw materials, etc.
7. **Participation in Equity Capital:** A scheme for participation in the equity capital of the companies, formed to set up first commercial unit to exploit the technologies from NRDC, has been introduced. The equity participation is up to 26 per cent of the capital in industries which require an investment of Rs 50 lakh or more.

7.3.8 Technical Consultancy Organizations (TCOs)

TCOs have been conceived as service organizations for promotion of industrialization in the country. The prime objective of these organizations is to provide a package of services under one roof to entrepreneurs from the stage of project identification to successful implementation and working of the unit. This is called the Single Window Scheme.

The scope of the services of TCOs are organized on a regional basis, so as to overcome the disparities in various regions on the basis of natural resources and environmental conditions and in order to make technical services available according to the local demand and resource endowment. There are 18 TCOs in different states sponsored by IDBI, IFCI, ICICI and State Small Industries Corporations.

Services of TCOs

TCOs are providing services to new entrepreneurs and existing units. Based on their individual requirements, TCOs design their services.

Services to new entrepreneurs

- Assist in identification of profitable project opportunities
- Assist in preparation of project profiles, techno-economic feasibility studies
- Conduct market surveys and pre investment studies
- Provide help in identification and selection of plant/equipment

Services to existing enterprises

- Guide the entrepreneur in the area of modernization, expansion and diversification
- Assist in identifying problems of the unit and suggesting specific corrective measures
- Provide services in functional areas of enterprise such as management, technical and financial consultancy
- Review and monitor the project
- Provide studies on energy conservation and effluent treatment
- Assist mergers and reconstruction of the units

Common services to all entrepreneurs

(a) **Entrepreneurship Development Programmes (EDP):** One of the important activities of TCOs is providing training to potential entrepreneurs through EDP. TCOs conduct EDPs for different target groups like technical entrepreneurs, women entrepreneurs, rural entrepreneurs, tribal entrepreneurs, etc.

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(b) Services to Sick Units: Providing services to sick units is essential in economic development, so as to reduce or prevent the blocked investment wastage and protect the employees' interests. TCOs are providing the following services:

- Diagnostic studies to assess the working of existing units and reason for sickness
- Rehabilitation plans for revival of sick units
- Technical, managerial and commercial counseling

7.3.9 The National Institute for Entrepreneurship and Small Business Development (NIESBUD)

NIESBUD is the apex body that was established by the Indian Ministry of Industries in 1983 to coordinate, train and oversee the activities of the several agencies/institutions involved in entrepreneurship development, especially in the field of small business and industry. NIESBUD is registered as a society under the Government of India Societies Act (XXI of 1860). It commenced its operations on 6 July 1983. The governing council of the institute makes policies and directs and guides the institute. The institute is headed by a chairman who is also the minister of Small Scale Industries, Government of India. The various functions of NIESBUD are as follows:

- It undertakes research and exchange experiences globally for developing and aiding in the growth of entrepreneurship. It actively involves itself in the creation of a climate that is conducive to the development of entrepreneurship.
- It conducts training programmes for entrepreneurs, trainers and promoters.
- It facilitates and supports central/state/other agencies in organizing entrepreneurship development programmes.
- It develops training aids, tools and manuals.
- It formulates scientific selection procedures.
- It standardizes the model syllabi for training various target groups.
- It evolves effective training methodologies and strategies.

7.4 GOVERNMENT SCHEMES FOR THE PROMOTION OF ENTREPRENEURS

Entrepreneurs require a constant flow of funds not only to set up their businesses, but also to successfully operate and regularly upgrade/modernize industrial units. For meeting this need, the Central/State Governments (Central/State) have undertaken numerous steps. For instance, financial institutions and banks have been set up, several schemes and policies have been formulated, etc. The specific focus of all these measures is on promoting and developing SMEs. The primary source of finance for the industrials sector are public sector banks. Credit support is extended to businesses in the form of export finance, term loans, project financing, discounting bills, advances, loans, etc.[2]

The various schemes of the Government of India and the Government Financial Institutions generally assist the entrepreneurs in the following areas:

a. Technical assistance through industrial extension services
b. Assistance for obtaining raw materials

[2] http://business.gov.in/business_financing/goverment_fund.php, 10 January, 2009.

c. Working capital or to meet cash outflow needs assistance
d. Supply of machinery on hire-purchase basis and lease financing
e. Marketing assistance in sale and promotion of products
f. Assistance to small entrepreneurs on getting incentives and subsidies
g. Promotion of rural industries projects
h. Assistance in seed capital, technology and pollution control

7.4.1 Prime Minister's Rozgar Yojana (PMRY)[3]

On 15 August 1993 the Prime Minister of India announced the Prime Minister's Rozgar Yojana scheme. The scheme was formally launched on 2 October 1993. It seeks to provide self-employment to the educated unemployed youth by offering self-employment opportunities to one million educated unemployed youth in the country.

Objectives of the scheme

The objective of the scheme is the provision of self-employment to over one million educated unemployed youngsters by means of setting up seven lakh micro enterprises. It deals with setting up self-employment projects through business, service and industry routes. It further aims to obtain assistance from reputed NGOs in implementing the PMRY scheme, particularly in selecting and training entrepreneurs and in preparing project profiles.

Scope of the scheme

Initially, in 1993–94, the scheme intended to cover only the urban areas, but from 1994–95 onwards, it was extended to the entire country. The Scheme for the Educated Unemployed Youth (SEEUY) was integrated with PMRY in 1994–95.

Eligibility criteria under this scheme

All unemployed persons, who live anywhere in India, be it an urban or a rural area, and who fulfil the following conditions are eligible for assistance:

a. Age: Between 18 to 40 years (SC/ST – 45 years).

b. Qualification: Matric (Passed or Failed) or ITI passed or having undergone Government sponsored technical course for a minimum duration of 6 months.

c. Residency: Permanent resident of the area for at least 3 years. Documents such as Ration Card would constitute proof for this purpose. In its absence any other document to the satisfaction of the Task Force should be produced.

d. Family Income: Up to Rs 40,000 per annum. Family for this purpose includes spouse and parents of the beneficiary and family income would include income from all sources, wages, salary, pension, agriculture, business, rent, etc.

e. Defaulter: Should not be a defaulter to any nationalized bank/financial institution/ co-operative bank.

Preferences under this scheme

Preference should be given to weaker sections including women. The scheme envisages 22.5 per cent reservation for SC/ST and 27 per cent for Other Backward Classes (OBCs).

[3] http://megindustry.gov.in/citizen2.htm

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Accepted project cost under this scheme

Projects up to Rs 1 lakh are covered under the scheme in case of individuals. If two or more eligible persons come together in a partnership, the project with higher costs would also be covered provided share of each person in the project cost is Rs 1 lakh or less.

Margin money, bank loans and rates of interest

The entrepreneur must contribute 5 per cent of the project cost as margin money in cash. The balance 95 per cent would be sanctioned as composite loan by the Bank at the rates of interest applicable to such loans under RBI guidelines issued from time to time.

Collateral guarantee on bank loans

The loans would not require any collateral guarantee. Only assets created under the Scheme would be hypothecated/mortgaged/pledged to the Bank.

Subsidy

The Government of India would provide a subsidy at the rate of 15 per cent of the project cost subject to a ceiling of Rs 7, 500 per entrepreneur. In case more than one entrepreneur comes together and sets up a project under partnership, the subsidy would be calculated for each partner separately at the rate of 15 per cent of his share in the project cost, limited to Rs 7, 500 (per partner).

Repayment schedule

Repayment Schedule would range from three to seven years after an initial moratorium of 6 to 18 months as decided by the Bank.

Training

Scheme envisages compulsory training for entrepreneurs after the loan is sanctioned. Training will enhance the skills in the areas of operations in the industry.

Other inputs

a. State/U.T. governments provide the necessary infrastructure support like provision of industrial sites, sheds, shops, and water on preferential basis to these entrepreneurs. Provision of sites and sheds at concessional rates to service ventures in urban area is essential for their success. Many State/U.T. governments are offering various tax concessions and incentives under their industrial policy. Such concessions should also be extended to the beneficiaries under the scheme.

b. As load requirement will be small, State/U.T. governments have also been asked to give priority to the person getting the loan sanctioned under the PMRY for electric connection and no deposit should be taken and small infrastructure e.g. erecting a few poles and extension of wire line should be done expeditiously.

7.4.2 Credit Guarantee Fund Scheme (CGFS) for Small Industries

One of the biggest problems for small scale industries is non-availability of credit without collaterals or third party guarantees. In order to alleviate the problem, the CGFS for small industries was formulated by the Government of India on 30 August 2000 to provide collateral-free credit facility (term loan and working capital) extended by eligible lending institutions to new and existing SSI units including Information Technology and Software

Industry, up to Rs 25 lakh per borrowing unit. The guarantee cover would be up to 75 per cent of the credit, subject to a maximum guarantee limit of Rs 18.75 lakh.

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Under this scheme, first generation entrepreneurs are considered eligible borrowers who set up new enterprises in the small scale unit, including Information Technology and the Software Industry. All scheduled commercial banks – including regional rural banks (categorized under 'Sustainable Viability'), foreign banks, private banks, PSUs and the institutions directed so by the Government to – are considered eligible for giving loans as per the scheme. Credit Guarantee Fund Trust for Small Industries (CGTSI) has been set up by SIDBI and the Government of India for implementing the Guarantee Scheme. CGTSI operations are fully computerized with facility for online transactions so as to give real-time service to member-lending institutions.

Guarantee fee and annual service fee of the scheme

- One time guarantee fee at a specified rate (currently 2.5 per cent) of the credit facility (comprising term loan and working capital) sanctioned by the lending institution to the borrower.
- Annual service fee at a specified rate (currently 1 per cent per annum) on the outstanding loan amount as on 31 March each year.

7.4.3 Margin Money Scheme (MMS)

This scheme is intended to promote the cottage and village industries in India. The Khadi and Village Industries Commission (KVIC) and Khadi Village Industries Board (KVIB) Government of India have formulated this scheme.

The scheme serves individual as well as institutional enterprises under two categories. 1)General categories 2)Special categories, including women and minorities. This scheme is applicable in any area comprising villages or involving areas outside the municipal limits, with a maximum population of 20, 000 as per the 1991 census..

General category

Under this category 25 per cent of the project cost will be provided as Margin Money against the projects up to Rs10 lakh, if the project cost is more than 10 lakh and up to Rs 25 lakh, the rate of Margin Money will be 25 per cent of Rs10 lakh plus 10 per cent of the remaining cost of the project.

For example, if the project cost is Rs15 lakh, the rate of Margin Money is 25 per cent of 10 lakh and 10 per cent on Rs 5 lakh.

Special categories, including women and minorities

Under this category for projects up to Rs10 lakh 30 per cent of the project cost will be provided as Margin Money. For projects over Rs10 lakh and up to Rs 25 lakh, the Rate of Margin Money will be 30 per cent of Rs10 lakh plus 10 per cent of the remaining cost of the project.

Beneficiaries of the scheme

- Individuals/Entrepreneurs for project cost up to Rs10 lakh
- Institutions/Co-operative Societies/Trusts registered with KVIC/KVIB for projects up to Rs 25 lakh

KVIC/KVIBs have 15,000 sales outlets and Voluntary Organizations/Institutions/Societies/Trusts. These sales outlets are part of the marketing support system for Khadi and Village Industries products of entrepreneurs/institutions.

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7.4.4 Major Schemes of National Small Industries Corporation (NSIC)

i. **Machinery and Equipment Scheme (MES):** By this scheme NSIC implements a) Hire Purchase Scheme: This scheme is intended to supply indigenous and imported equipment and machinery on easy financial terms. b) Equipment Leasing Scheme: This scheme provides financial assistance for expansion, diversification and upgrading the technology of small and medium enterprises according to the needs to the market.

ii. **Composite Term Loan Scheme:** This scheme has been launched so that existing and prospective entrepreneurs could enjoy certain benefit in acquiring working capital, equipment and machinery and land and building under a single roof for small units.

iii. **Working Capital Finance Scheme:** This scheme is intended to augment the working capital of well managed and viable units. The NSIC caters to selective units that are in need of money to make payments of their purchases of production-related overheads such as statutory bills and electricity bills, spares, consumable stores, etc,

iv. **Raw material assistance scheme:** Under this scheme NSIC assists the small units to overcome the problem of blocking funds for storing raw materials in bulk. This scheme also assists entrepreneurs for the import of scarce materials.

7.4.5 Central Investment Subsidy Scheme

This was introduced in 1971, and has been modified from time to time based on the Government Industrial Resolution Polices. This scheme is to encourage the entrepreneurs for setting up industries in centrally notified backward areas. Subsidy allotment on this scheme is based on the category of backward area. For setting up industries in Category 'A' backward areas, subsidy is allowed at the rate of 25 per cent subject to maximum of Rs 25 lakh (enhanced to Rs 50 lakh for setting up electronics industry in hilly districts). In Category 'B' and 'C' backward areas, it is 15 per cent and 10 per cent subject to a maximum of Rs 15 lakh and Rs 10 lakh respectively. Monopoly Restrictive Trade Practice (MRTP)/Foreign Exchange Management Act (FEMA) companies are not eligible for subsidy in Category 'C' areas. In Categories 'B'" and 'C' areas entrepreneurs are eligible for 20 per cent and 15 per cent subsidy, subject to a maximum of Rs 20 lakh and Rs 15 lakh respectively.

7.4.6 Transport Subsidy Scheme

This scheme was introduced in 1971 and is applicable to remote and inaccessible areas. It covers the entire North Eastern Region including Sikkim, Jammu and Kashmir, Himachal Pradesh, hill district of Uttar Pradesh, Lakshadweep and Andaman and Nicobar Islands and Darjeeling district of West Bengal. Identified promotional institutions which transact business on behalf of small, village and cottage industries are also eligible for transport subsidy under this scheme. The scheme worked out by providing transport subsidy is paid on the transport cost of industrial raw materials which are brought into and finished goods which are taken out of these areas to identified rail heads/ports. In the North Eastern region subsidy is available at the rate of 90 per cent and for Himachal Pradesh, hill districts of Uttar Pradesh and Darjeeling district of West Bengal, it is 75 per cent. It is also available at the rate of 90 per cent for movement of raw materials within the North East region and at the rate of 50 per cent for movement of finished goods in this region from one state to another state. For airlifting of electronic components/products from Calcutta airport to the airport nearest to the locations of the industrial units in this region subsidy is allowed at the rate of 75 per cent and vice versa.

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7.4.7 Technical Assistance Scheme

The Prime Minister of India announced New Package for SSI sector on 30 August 2000, which provides the following technical assistance:

1. Capital subsidy of 12 per cent for investment in modernization and upgradation of technology in selected sectors.
2. Sunrise industries will be supported by setting up incubation centres in these industries.
3. NSIC, SIDBI and SIDO would, in collaboration with each other, be responsible for preparing a compendium of available technologies from R&D institutions in India and abroad and circulating it amongst industry associations for disseminating the latest information related to technology.
4. The Technology Bank of SIDBI for Small Enterprises will be strengthened.
5. The scheme of granting Rs 75,000 to each unit for getting ISO 9000 certification will continue till the end of the Tenth Five Year Plan. This is to encourage Total Quality Management in the industry.
6. Develop and operate testing laboratories with a one time capital grant of 50 per cent being given to Small Scale Industry Associations.

7.4.8 Liberalized Credit Scheme on Exports

To meet the various financial requirements of exporters, the commercial banks are offering this scheme. Under this scheme the exporter provides credit at a concessional rate of interest to meet the pre-shipment and post shipment financial needs. Pre-shipment finance is required prior to shipment for purchase of raw material, processing, packing, transportation, warehousing etc. of goods meant for exports. Post shipment finance is required after shipment to bridge the time lag between the shipment of goods and the realization of proceeds.

7.4.9 Export Promotion Capital Goods (EPCG) Scheme

Under the EPCG scheme capital goods may be imported at a concessional rate of customs duty of 25 per cent of Cost, Insurance and Freight (CIF) value with an export obligation of three times CIF value to be achieved within four years. The duty will be further reduced to 15 per cent of CIF value where the export obligation undertaken is four times the CIF value within a period of five years. A manufacture-exporter for a period not less than three years is eligible for this scheme. Other exporters may also be considered on merit. Small industries can import capital goods through NSIC under this scheme.

Check Your Progress

11. What is the role of the NPC in the promotion of small industries?
12. List the functions of NRDC.
13. List the services of TCOs.
14. Describe NIESBUD.

7.4.10 Duty Exemption Scheme

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Under this scheme, customs and excise duties are not charged on raw materials, components, consumables and spares used for production of export items. It provides benefits to indirect exporters.

7.5 SUMMARY

Economic development of any nation depends upon the development of industries. Small Scale Industries use indigenous technology and provide huge employment opportunities, hence development of small ccale industries helps a nation to fulfill the needs of society as well as solve the problem of unemployment.

An industry needs support from the Government and other agencies to perform its operations. Entrepreneurial development of any nation depends upon the role played by the government and the government promoted support agencies and their schemes.

Support agencies are essential and are helping entrepreneurs in selection of industry, location of plant, procurement of raw material, determining the size of manpower requirement (skilled, semi-skilled and un-skilled), generation and management of working capital, marketability of goods and services, knowledge of sales tax and central tax, knowledge of book keep and accountancy, transportation and warehousing facilities, and licensing, and government permissions.

Small scale enterprises not only need financial assistance but also need support and guidance from government agencies, in order to bring their idea into reality and to run the enterprise profitably. In this aspect of entrepreneurial need the Government of India as well as state governments have launched various support agencies such as DIC, SIDBI, SIDCO, SSIB, NSIC, and SISI.

Central as well as state level support agencies are emerging as very effective services to entrepreneurial development in India. The support agencies are implementing various programmes and facilitating services such as managing industrial estates, providing single window services to clear all government licenses and permissions to launch an industry, procurement and allotment of scare raw material, hire purchase of machinery, subsides on power, water, tax exceptions and incentives by various schemes.

7.6 KEY TERMS

- **Support agency:** An organization working under the Central or state government to facilitate various services that are needed for entrepreneurial promotion and development.
- **Industrial survey:** A survey undertaken by the government to understand the level of development of industry.
- **Industrial estate:** A common place provided by state government to make allotments of location for various industries.

7.7 ANSWERS TO ‘CHECK YOUR PROGRESS’

1. Small-scale industries have the potential to attract the maximum amount of skill and entrepreneurial talent in the country and become a factor for promotion of

economic democracy, by allowing profits from industrial growth to be distributed over a broader section of the people. That is how it came to acquire a prominent place in the development plan of these countries. Hence, promotion of small manufacturing enterprises has been one of the main strategies of economic development in developing countries.

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2. Small-scale units help to decentralize industry, to spread entrepreneurship and to develop local resource endowment. It neutralizes the augmentation of industrialization, and steers a balanced regional development. This sector also helps in creating employment opportunities on dispersed basis, bringing about more equitable distribution of income and wealth. By and large, small industries are mostly individual enterprises that normally mature into public institutions and promote national development.
3. support agency is an organization working under Central or State Government to facilitate various services which are needed for entrepreneurial promotion and development, such as selection of industry, location of plant, procurement of raw material, determination of size of manpower requirement (skilled, semi-skilled and un-skilled), generation and management of working capital, marketability of goods and services, knowledge of sales tax and central tax, knowledge of book keep and accountancy, transportation and warehousing facilities, licensing, and government permissions.
4. The main financial problems of small industries may be categorized as follows: i) lack of promoter's capital ii) fewer alternatives for obtaining short-term loans and iii) complexity in obtaining long-term loans to supplement insufficient equity capital.
5. The DICs structure consists of a General Manager, four functional managers in fields of a) Economic and Investigation, b) Credit, c) Village Industries, d) Raw material/marketing/training and three Project Managers (to provide technical services in the area relevant to the needs of the district concerned)
6. The various functions of DIC are i) Conducting motivation campaigns, ii) Conducting industrial surveys iii) Making achievement plans iv) Doing industry registration v) Assisting to obtain credit vi) Providing guidance and assistance vii) Recommending applications viii) Organizing Fairs and Exhibitions ix) Helping in marketing their products x) Organizing Training, and xi) Conducting EDP.
7. The State Industries Development Corporations were set up in various states under the Companies Act, 1956 to provide primary development needs of tiny, small, village and cottage industries. SIDCO has been working actively since its inception and is engaged in the following: a) Industrial Estate Design and Promotion b) Providing Marketing Assistance c) Working as Recognized Export House d) Ensuring Balanced Regional Development and e) Providing Hire Purchase and Equipment Leasing Scheme.
8. In 1954, the Government of India constituted the Small Scale Industries Board (SSIB), which is the apex body constituted for advising the Government on all matters associated with the development of small scale industries. The SSIB's main task is to facilitate coordination and linkage between various agencies/ departments engaged in the development of small scale industry.
9. The major function of NSIC is to provide machinery to industry on hire purchase basis. It also performs the following functions : Procurement of indigenous and

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imported raw materials, , supply and distribution, development of export-worthiness of small-scale units and encouraging export of small scale industries products, giving equal priority to the enlistment of competent units and the facilitation of their participate in Government Stores Purchase Programmes, providing training in several technical trades, motivating Small Scale Units on technological upgradation through Software Technology Parks and Technology Transfer Centres, mentoring small scale units and providing advisory services, setting up small-scale industries in other developing countries on turnkey basis and other areas of services and international co-operation.

10. SISIs were set up by the Government of India to provide consultancy in the areas of project plan preparation and execution and training to small entrepreneurs. With its various functionalities SISIs are playing an important role in promoting and developing small scale industries. They perform the following functions: i) Technology adoption advisory services ii) workshop and laboratory services iii) consultancy services on functional management iv) training services v) balanced regional development services, and vi) economic development services. All the functions performed by SISIs are in turn focused on individual entrepreneur development as well as economic development.
11. NPC is an autonomous body which provides the following services for the promotion of Small Scale Industry: a) consultancy service in all areas about the feasibility of the project b) Training to the prospective entrepreneurs on various matters related to management of an enterprise c) Carrying out market surveys for State Governments and d) Post-investment service in areas like increasing productivity.
12. The NRDC of India was established in 1953 as a non-profit organization by the Government of India. It was set up to develop and exploit local know-how, inventions, patents, and processes emanating from research and development institutions in India. The functions of NRDC are as follows: a) Transfer of Technology b) Development of Projects c) Appropriate Technology Development and Promotion d) Expert of Technology e) Guidance of Entrepreneurs f) Turnkey Services and g) Participation in the Equity Capital.
13. TCOs are providing their services to new entrepreneurs and existing units. Services to New Entrepreneurs include a) Assist in identification of profitable project opportunities b) Assist in preparation of project profiles, techno-economic feasibility studies c) Conduct market surveys and pre investment studies d) Provide help in identification and selection of plant/equipment. Services to Existing Enterprises include a) Guide the entrepreneur in the area of modernization, expansion and diversification. b) Assist in identifying problems of the unit and suggest specific corrective measures c) Provide services in functional areas of enterprise such as management, technical and financial consultancy d) Review and monitor the project e) Provide studies on energy conservation and effluent treatment f) Assist mergers and reconstruction of the units. Besides these, they are also conducting EDPs and providing services to sick industries.
14. NIESBUD is the apex body established by the Indian Ministry of Industries in 1983 to coordinate, train and oversee the activities of several agencies/institutions engaged in entrepreneurship development, especially in the field of small business and industry. Registered as a society under the Government of India Societies Act (XXI of 1860), NIESBUD started functioning from 6 July 1983. The governing

council of the institute makes policies, and directs and guides the institute. The institute is headed by a chairman who is also the minister of Small Scale Industries, Government of India. The various functions of NIESBUD are: (i) It undertakes research and exchange experiences globally for developing and aiding in the growth of entrepreneurship. It actively involves itself in the creation of a climate that is conducive to the development of entrepreneurship; (ii) It conducts training programmes for entrepreneurs, trainers and promoters; (iii) It facilitates and supports central/state/other agencies in organizing entrepreneurship development programmes; (iv) It develops training aids, tools and manuals; (v) It formulates scientific selection procedures; (vi) It standardizes the model syllabi for training various target groups; and (vii) It evolves effective training methodologies and strategies.

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7.8 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the main objective of small scale industry promotion?
2. What is the need of service agencies?
3. What is the structure of DIC?
4. What is the Prime Minister Rojgar Yojana (PMRY)?
5. Explain the Credit Guarantee Fund Scheme (CGFS).
6. Describe the Margin Money Scheme (MMS).
7. What are the main features of the Central Investment Subsidy Scheme?
8. What are the main features of the Transport Subsidy Scheme?
9. What are the main features of the Technical Assistance Scheme?
10. What are the main features of the Liberalized Credit Scheme on Exports?
11. Explain Export Promotion Capital Goods (EPCG).
12. What is the Duty Exemption Scheme?

Long-Answer Questions

1. 'The awareness and planned efforts of the Central as well as State Governments and the promotional agencies have made a breakthrough in entrepreneurial development'. Discuss.
2. What are the functions of District Industries Centers?
3. Explain the role of SIDCO in providing consultancy services to small entrepreneurs.
4. Describe the NSIC in the promotion of Small Industry.
5. 'Institutional support acts as limbs to SSIs'. Do you agree? Discuss.
6. Describe the major schemes of National Small Industries Corporation.
7. Explain the role of TCOs in providing various services to small entrepreneurs.
8. Explain the functions of SISI.
9. What are the functions of NRDC?

7.9 FURTHER READING

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UNIT 8 ENTREPRENEURIAL MOTIVATION AND DEVELOPMENT

Structure

8.0 INTRODUCTION

Entrepreneurial talent exists in all walks and segments of society. A high level of entrepreneurship is more noticeable in a developed economy whereas the level of entrepreneurship is low in developing countries. Once it was believed that entrepreneurs were born and not made. However, entrepreneurial talent can be harnessed by those who are motivated, and are able to perceive and exploit business opportunities. Hence, entrepreneurs can be 'made' by proper motivation and training. Realizing the importance of entrepreneurship development, planners and policy makers have formulated Entrepreneur Development Programmes (EDPs) for various target groups of population in the country.

The basic function of an entrepreneur is to maximize his performance so as to achieve his enterprise objectives. The performance of an entrepreneur depends mainly

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on his ability and willingness to perform. Ability is a function of education, knowledge and skill. Willingness to perform depends upon the level of motivation. A person can be motivated to be an entrepreneur only if he can understand and satisfy his needs and aspirations. Human behaviour is governed by needs and wants. Entrepreneurs feel motivated when their needs and expectations are satisfied as a result of working for the enterprise.

8.1 UNIT OBJECTIVES

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

- Understand what entrepreneurial motivation is
- Know the factors that motivate entrepreneurs
- Appreciate the role and importance of development programmes
- Understand the objectives and basic course contents of EDPs
- Know how to evaluate EDPs and the organizations involved in EDPs

8.2 WHAT IS MOTIVATION?

Motivation is a continuous process to ignite the inherent talent and aspirations of entrepreneurs to drive them to achieve their organizational objectives and goals. This can be done by means of training programmes or other courses of action such as knowledge sharing among equivalent groups, and satisfying the needs and desires of entrepreneurs.

The term ‘motivation’ is derived from the word ‘motive’. Motive is a state of our mind that moves, activates, energizes or directs our behaviour toward our goals. Motives are expressions of a person’s goals or needs. They give direction to human behaviour to achieve goals or fulfill needs. They arouse and energize a person’s activities.

Motivation may be defined as a process of inspiring someone to adopt a desired course of action. In order to generate a willingness in a person to work hard so as to achieve organizational objectives, his motives must be satisfied by offering incentives. An incentive is something an individual perceives as helpful towards achieving his goals. Incentives exist to satisfy human needs.

According to Robert-Dubin, motivation is ‘something that moves the person to action and continues him in the course of action already initiated’.

According to Dalton E. McFarland, ‘motivation refers to the way in which urges, drives, desires, striving, and aspirations or needs direct control or explain the behaviour of human being’.

8.3 FACTORS THAT MOTIVATE ENTREPRENEURS

There are two types of factors that motivate an entrepreneur:

1. Internal factors
2. External factors

8.3.1 Internal Factors

These are unique factors and differ from person to person. Internal factors refer to a person’s family background, his level of education and his desire to achieve. The following are examples of internal factors:

1. Desire to do something new
2. Level of education
3. Technical education or technical background
4. Number of years of experience
5. Occupational knowledge and background

8.3.2 External Factors

These are common to every individual and are outside the scope of any one individual. These factors are based on the availability of resources, government's policies towards industrialization and policy makers' vision. The following are examples of external factors:

1. Government support and assistance towards industrialization
2. Availability of factors of production (land, labour, capital) and the present economic condition of the country
3. Interest and support from established business houses
4. Hopeful demand for production

8.4 ENTREPRENEUR DEVELOPMENT PROGRAMMES

Usually all individuals who are newly recruited on the job need specific guidance and training. Similarly professionals may need additional training which will enable them to improve their professional qualifications. One special category of individuals may need training for a specific purpose, such as the development of a new service, taking on a new role in the organization, or preparing for retirement. These types of individuals are known as entrepreneurs. An entrepreneur is a hinge around which the entire industry rotates.

Success in any venture depends upon certain qualities such as foresight, knowledge, sanguinity, hard work, determination and efficient management of the promoter. Some individuals have these qualities by virtue of being born in a particular family, whilst others acquire them from the environment through education, training and experience. Entrepreneurship does not emerge or develop on its own. Its emergence and development depends on various economic and non-economic factors. Economic factors comprise land, labour, capital, raw material and market whereas non-economic factors include social climate for entrepreneurship, and the need to achieve social mobility, status and respect. Entrepreneurial development has become a subject of great importance in all developing and developed economies of the world. Entrepreneurial talent can be nurtured by undertaking various Entrepreneurship Development Programmes. An EDP may be defined as a programme that is designed to help an individual strengthen his entrepreneurial motive and to acquire skills and capabilities so that he can play his entrepreneurial role effectively. The thrust of an EDP is to prepare a person for his entrepreneurial career, make him capable of perceiving the opportunities and exploiting them successfully for setting up his own enterprise. Thus, a trained entrepreneur becomes a catalyst of industrial development economic progress.

According to US motivation expert David C. McClelland, 'persons possessing proper knowledge and skills acquired through education and experience can become successful entrepreneurs'. Thus, we can say that entrepreneurs are not born but they are made by development programmes.

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8.5 OBJECTIVES OF EDPS

The basic objectives of EDP are to:

1. Provide knowledge about the industry, product and production methods.
2. Develop and strengthen entrepreneurial qualities to achieve the objectives and goals of an enterprise.
3. Assist the entrepreneur to work more effectively in his present position by exposing him to the latest concept, techniques and information.
4. Analyse and acquire knowledge about the environmental factors that are required to set up a Small Scale Industry in a specific region or area.
5. Provide education regarding customer buying behaviour, customer relationship and customer service.
6. Provide knowledge about the available financial services and supporting agencies for starting a small scale industry.
7. Acquire necessary managerial skills that are needed to run the enterprise.
8. Help know the pros and cons of being an entrepreneur.
9. Guide entrepreneurial behaviour in day-to-day activities.
10. Prepare the entrepreneur for the uncertainties involved in business and to develop a broad vision about the business.

8.6 BASIC COURSE CONTENTS OF EDP

The process of EDP involves the following sequence:

1. Identification of prospective and right candidates
2. Training and developing their entrepreneurial capabilities
3. Linking suitable projects with each entrepreneur
4. Equipping them with basic administrative, financial and managerial capabilities
5. Providing follow up support in establishing the venture

An EDP consists of three phases:

1. Pre- training phase
2. Training phase
3. Post training phase

8.6.1 Pre-training Phase

This phase is intended to carry out the preparations required to launch a programme. The activities included in this phase are:

(i) Creation of infrastructure for training
(ii) Preparation of training syllabus
(iii) Tie up with Guest Faculty for training
(iv) Selection of necessary tools and techniques to select suitable entrepreneurs
(v) Formation of selection committee for selecting trainees
(vi) Arranging publicity media and campaigning for the programme

(vii) Developing the application form

(viii) Pre-potential survey of opportunities available in the given environmental conditions

(ix) Selection of potential entrepreneurs

(x) Arranging for inauguration of the programme

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The identification and selection of potential entrepreneurs is the most important aspect of pre-training phase. If the trainees are not properly selected the entire programme can fail. The selection procedure to be adopted should be based on sound theoretical background and standard tests administered by experts. Several institutions of repute administer scientific tests such as Thematic Appreciation Test, Entrepreneurial Test, etc., which are followed by personal interviews. Besides, certain socio personal characteristics such as family background, age, size and type of family, education, and previous experience in trade should also be taken into consideration for selecting the potential entrepreneurs. When entrepreneurs are selected properly, chances of drop outs are minimized and the training becomes effective.

8.6.2 Training Phase

In this phase, the training programme is launched in order to carry out necessary changes in the skills, attitudes and behaviour of the participants. Motivational inputs such as psychological games, tests, goal setting exercises and role play are used for this purpose. The objective of these inputs is to enable the participants to do a self study, understand their own entrepreneurial personality and behaviour and bring about changes in self concept, values and skills, leading to positive entrepreneurial behaviour.

The other inputs of the training programme include the following:

(i) Developing skills in identifying suitable items for manufacturing. The techniques of conducting market surveys and research are covered for this purpose.

(ii) For organizing an industry, information on government policies and programmes is helpful to the entrepreneurs. A number of institutional agencies offer necessary financial and non-financial assistance to set up industries. The participants have to be exposed to agencies such as DIC, local banks and other financial institutions and institutions that deal with supply of equipment, raw material, etc. The procedures of applying to and obtaining assistance from these institutions are also a part of this programme.

(iii) The training programme is developed in a way that ensures that entrepreneurs are able to develop their enterprise well. It includes study of techniques in various fields of management such as finance, marketing, production, inventory control, labour laws and taxation.

(iv) An industrial visit to units consistent with items identified by the entrepreneur is also a part of the training programme. This enables the entrepreneur to gain practical knowledge on production processes and machines required for this purpose.

8.6.3 Post Training Phase (Follow Up)

During this phase a review is done of the knowledge and skills acquired during the training phase. Follow up is essential for the success of any EDP. The ultimate objective of the EDP is to make the participants ready to start their industries. This phase, therefore, also involves making an assessment of how far the objective of the programme has been achieved.

Check Your Progress

1. How does motivation help in entrepreneurial development?
2. List the factors that motivate entrepreneurs.
3. What are the economic and non-economic factors that influence entrepreneurial development?

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Some of the common activities in the follow up process are as follows.

(i) Preparing and maintaining a separate file for each trainee.
(ii) Maintaining a card for each trainee where his progress is recorded from time to time.
(iii) Keeping in touch with every participant through letters.
(iv) Maintaining contact with the entrepreneurs through personal visits.
(v) Conducting follow up meetings and maintaining a Follow up Register to ensure the success of the EDP.

8.6.4 General Course Structure of an EDP

The EDP training is set up according to the training needs of participants, who are both existing and potential entrepreneurs, and industrial prospects of the area. The duration of the training programme is four weeks, and consists of six modules.

(a) **Introduction to entrepreneurship:** This module covers general knowledge on factors affecting small-scale industries, the role of entrepreneurs in economic development, entrepreneurial behaviour and the facilities available.
(b) **Motivation training:** Motivation training is a three-day live-in-module aimed at increasing the participant's level of achievement and confidence and developing the right attitude and behaviour towards business. Successful entrepreneurs are invited to speak about their experiences in setting up and running a business.
(c) **Essentials of management:** This module is aimed at providing participants with basic management and technical know-how to enable them to operate their business enterprise effectively and efficiently. It consists of the following subjects:
    i. General Management
    ii. Marketing Management
    iii. Production Management
    iv. Financial Management
(d) **Fundamentals of project feasibility study:** This ratio provides guidelines on the effective analysis of feasibility of the project in view of marketing, organization, technical, financial and social aspects.
(e) **Organizing the business:** The purpose of this module is to enable participants to know about the environment in which they will operate their business. This covers such aspects as government incentives, industrial opportunities, policies, business laws, and regulations.
(f) **Plant visit:** Plant visits are necessary to familiarize the participants with real life situations in small business. Such trips also provide participants with opportunities, to learn more about an entrepreneur's behaviour, personality, thoughts and aspirations including his plans and projects.

The training method is a combination of group dynamics, lecture discussions, case studies, actual preparation of project assignment, and workshop exercise.

8.7 EVALUATING AN EDP

An EDP can be judged on the basis of extent of success achieved in the realization of objectives established under EDP. According to Dr Sharma[1] entrepreneurial performance is a function of the following factors.

(a) **Socio cultural background of the entrepreneur (SB).** This implies the environment in which the entrepreneur was born and brought up. It conditions the values and attitudes of the entrepreneur.
(b) **Motivational Force (MF).** It implies the motives which prompt a person to undertake entrepreneurship e.g. wealth, status, self employment, etc.
(c) **Knowledge and ability of the entrepreneur (KA).** It refers to the education, training and experience of the entrepreneur.
(d) **Financial Strength (FS).** It means the funds which an entrepreneur can mobilize from internal and external sources.
(e) **Environmental Variables (EV).** These consist of government policies, market conditions, availability of technology and the labour situation. Entrepreneurial Performance (EP) 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 EDPs have actually started their own enterprise after completing their training under EDPs. Entrepreneurship Development Institute of India, Ahmedabad, had recently undertaken a nationwide evaluation study on the effectiveness of EDPs. The major findings of this study are – (i) One out of four trainees actually started his/her enterprise after completing EDP (ii) The final start up rate is higher at around 32 per cent (iii) About 10 per cent 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 end up getting added to the category of trainees who have already dropped the idea of setting up their own enterprises (iv) Roughly 17 per cent have given up the idea of starting their ventures as they are engaged in other activities.

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

(i) **Financial Results.** Judgement about the financial health of the enterprise can be made on the basis of various yardsticks like return on capital employed, net profit over sales, etc.
(ii) **Gestation Period.** This represents the time gap between registration and commencement of commercial production. Gestation period of two to three years is regarded as satisfactory by the financial institutions. Projects can be delayed due to various reasons like delay in government approvals, assistance from financial institutions, unavailability of manpower, and problems with collaborators.
(iii) **Capacity Utilization.** This depends on the demand for finished products and availability of various factors of production like funds, raw material, power, labour etc. For majority of entrepreneurs breakeven is at 60 per cent of installed capacity. Approximately 50 per cent of entrepreneurs operate at 80 per cent of installed capacity.

[1] Sharma, Krishan Lal and Harnek Singh, *Entrepreneurial Growth and Development Programmes in Northern India* (New Delhi: Abhinav Publications, 1980).

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

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

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

8.8 ORGANIZATIONS CONDUCTING EDP IN INDIA

Several organizations are conducting entrepreneurship development programmes in India. The forerunner was the Small Industries Development Organization which provided this facility through its Small Industries Service Centres.

The Entrepreneurship Development Institute of India (EDII) established the IFCI in March 1983, at Ahmedabad. It was to act as a financial resource organization at the national level for creating the institutional infrastructure for entrepreneurship development. In the same year the Central Government also established the National Institute for Entrepreneurship and Small Business Development (NIESBUD) at New Delhi, with the objective of coordinating activities related to entrepreneurship and small business development. Both these organizations are working hand in hand to boost the entrepreneurship development movement in India.

Besides these, other institutions established by the government are: Rural Entrepreneurship Development Institute (RED) at Ranchi in 1983, Rural Management and Management Centers (RMEDC) at Maharashtra, and Training cum Development centres (RDCS) that are intended to increase interaction between entrepreneurs and enterprise. In addition, universities and host of management institutions have evinced interest in designing and incorporating entrepreneurship development courses in their curriculum.

Other organizations have also been actively conducting entrepreneurship development programmes. These are the State Bank of India, Industrial Development Bank of India, Entrepreneurial Motivation Training Centre in Northern-Eastern Region, Xavier Institute of Social Services, Ranchi, Industrial Consultancy Organizations in various states, Centre for Entrepreneurship Development, Ahmedabad, the Centre for Entrepreneurship Development, Hubli, State Financial Corpo, Small Industries Extension Training Institute, Hyderabad, National Science and Technology Entrepreneurship Development Board, etc.

For institutionalizing the entrepreneurship development activities at the state level, Institutes of Entrepreneurship Development (IEDs) in Uttar Pradesh, Bihar and Orissa have already come into existence with the support of India's financial institutions, concerned State Governments and banks, and are carrying out their activities on a full-fledged basis. A Centre for Entrepreneurship Development (CED) was registered in Madhya Pradesh on 17 November 1988, and later taken up by IFCI. An institute for Entrepreneurship Development was also set up at Goa under DB on the same pattern as other IEDs. A proposal to set up an IED for North-Eastern Region was also under consideration by the North Eastern Council. A few State Governments such as those of

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4. Describe some important objectives of EDP.
5. Describe the process of an of EDP.
6. List the stages of an EDP.
7. Describe the factors of Entrepreneurial function.

Karnataka, Andhra Pradesh, and Rajasthan, have also put forward their proposals for setting up CEDs in their respective States. These are to be considered on their merits by the financial institutions. The focus of the national organizations such as EDII, NIESBUD, etc. was on (a) institutional entrepreneurship activities, (b) generating, sharpening and sharing knowledge through research documentation and publication, (c) creating and developing professionals in the discipline of 'entrepreneurship' to emerge and flourish, and (e) developing new products and pursuing market segments for carrying the entrepreneurship development in priority areas and sections of the people. The State-level Institutions/CEDs provided human resources to various State and district EDPs level organizations engaged in entrepreneurship at the grass root level. The State-level organizations also provided industrial extension motivation services, business opportunities guidance, project counseling, etc., and helped in initiating entrepreneurship at school level in the career planning of the younger generation. For this, these organizations conducted a number of workshops, seminars, conferences and brought out well researched publications, for training the entrepreneurs. The organizations also produced a number of video films as audio-visual aids for training the entrepreneurs and motivating them to set up enterprises and operate them efficiently.

8.8.1 Management Development Institute (MDI)

For developing and improving the quality of day-to-day management, which is crucial for the success of any industrial venture, as also, with a view to encouraging professionalism in management, IFCI had sponsored in 1973, the setting up of the Management Development Institute (MDI) at Gurgaon (Haryana) near New Delhi. MDI provides management training, research and consultancy, and its prime goal is to improve managerial effectiveness in the industry/government and banking' sectors of the economy. Research studies undertaken by MDI are in both macro areas of economic and industrial development as also in micro areas relevant to a specific industry or economic activity.

The organization's Annual Report of 2009 mentioned that MDI had been chosen by the Department of Personnel and Training, Government of India, as an agency for conducting the first, 15-month National Management Programme (NMP) for Government Officers belonging to IAS/Group 'A' Services as well as executives from public and private sector organizations who have the potential to acquire top positions.

The MDI conducts management development programmes in various fields. These include programmes for officers of the Indian Economic Service (IES), Indian Administrative Service (IAS) and for executives of a number of PSUs such as Oil & Natural Gas Commission (ONGC), Bharat Heavy Electrical Ltd.(BHEL), Bharat Aluminium Co. Ltd (BALCO), Export Credit Guarantee Corporation of India (ECGC), Bureau of Indian Standards (BIS), Hindustan Zinc Ltd (HZL), Hindustan Machine Tools Ltd (HMT), Indian Drugs & Pharmaceuticals Ltd (IDPL), Uttar Pradesh State Industrial Development Corporation Ltd (UPSIDC), Madhya Pradesh Financial Corporation (MPFC), etc.

In Karnataka, MDI had also conducted a programme on Identification, Promotion and Implementation of Industrial Projects' (IPIIP), for the officers of District Industries Centres (DICs) State-level Promotional and Financial Institutions, commercial banks, etc. In addition, a number of programmes, particularly concerning strategic planning, marketing and sales, management consultancy, development banking, labour-management relations, human resources development, evaluation of small industries financing performance, role of directors, merchant banking, leasing, working capital financing, technology transfer, management, documentation and recovery practices of Development Financing Institutions, etc., were carried out by MDI and its subsidiary Development Banking Centre (DBC). As many as 23 workshops were conducted by MDI under the Planning Commission, International Labor Organization, United Nations Development Programme, In-house Management Consultancy Development Project (Phase II)

A major effort was also made by MDI in the area of consultancy and research. The focus was not only on developing management consultancy through training programmes and workshops but also undertaking process consultancy assignments in large complex organizations and directing efforts to develop in-house management consultancy teams in public utilities. The Consultancy and Research Wings of MDI have done extensive work in areas like corporate planning, evaluation of appraisal systems, feasibility studies, job structuring, management information systems, manpower planning, marketing appraisal, capital markets, off-shore banking, inter-firm comparison, seed capital, technology — its relevance, assessment and diffusion, etc.

8.8.2 Entrepreneurship Development Institute of India (EDII)

Entrepreneurship Development Institute of India (EDII), the principal agency with special responsibility for entrepreneurship development in the country, has been focusing on creating curriculum for entrepreneurship development and innovative training techniques for trainers. The Institute has developed an experimental EDP for women, keeping in view their special needs and the first such EDP was conducted in September 1988. Over the years EDII has carried out experiments in rural entrepreneurship development in a cluster of villages of U.P. and Orissa in collaboration with a voluntary organization. EDII prepared a video cassette on the 'focused behaviour event interview technique' for assessing entrepreneurial potential. In addition, it conducted an entrepreneurs' meet, entrepreneurship development orientation programmes and training programme for trainers, besides giving professional assistance to various institutions for their entrepreneurial development activities. EDII offers services to Sri Lanka, Nepal, Kenya, Ghana and other African Commonwealth countries. The Institute has organized a special camp on entrepreneurship in which more than 2,000 students participated in various activities, creating interest in entrepreneurial pursuits. In the Nehru Centenary Year, EDII brought out a book titled *Self-made Impact-making Entrepreneurs* based on a study undertaken by it.

8.8.3 Science and Technology Entrepreneurship Parks (STEPs)

As part of the programme for supporting the setting up of 15 STEPs jointly with other institutions, IDBI over the years has assisted seven STEPs viz., those sponsored by the Birla Institute of Technology (BIT), Ranchi, National Entrepreneurs Chemical Park (NECP), Regional Engineering College (TREC), Trichy, Harcourt Butler Technological Institute (HBTI), Kanpur, Sri Jayachamarajendra College of Engineering (SJCE), Mysore, Guru Nanak Engineering College, Ludhiana and Maulana Azad College of Technology, Bhopal with the aggregate assistance of Rs 6.2 crore. While the first five STEPs were sanctioned assistance prior to 1988–89, the last two were sanctioned assistance during the reporting period. STEPs proposed by Guru Nanak Engineering College will specialize in machine tools and electro-mechanical control equipment while the STEP sponsored by the Maulana Azad College of Technology will specialize in electronics and power engineering.

BIT-STEP has developed a unique technology for automatic wire length measurement system and import substitutive stainless steel wedge wire screen, besides other technologies for industrial applications. NECP-STEP is engaged in the preparation of project profiles of selected imported drugs. TREC-STEP has developed technology for hi-tech paints for nuclear applications, besides other hi-tech and import-substitutive products. Seven TREC-STEPS entrepreneurs have already started commercial production.. Student entrepreneurs of HBTI-STEP are working on projects which include fibre reinforced concrete and plastic components. SJCE–STEP has transferred technology of liquid level pump controller to one of its entrepreneurs for commercial exploitation and eight STEP entrepreneurs have established their units.

8.8.4 Institute for Entrepreneurship Development

Institute for Entrepreneurship Development was established as part of a strategy of giving special attention to entrepreneurship development needs of the more backward states. IDBI had proposed to set up Institutes for Entrepreneurship Development (IEDs) in association with other financial institutions and banks and State Governments. IEDs that were set up in Uttar Pradesh, Bihar and Orissa have become operational and the proposed IED in Madhya Pradesh has been registered.

The IED in UP has conducted 16 EDPs with the participation of 664 trainees, besides training state level trainers. It has also conducted programmes on industrial extension motivation, business opportunity guidance and project counseling for women, entrepreneurial awareness workshop for ex-servicemen, state level meet of EDP conducting agencies, studies on "Factors inhibiting and facilitating turnaround possibilities in small sector" and "Relevance of hill wool scheme". In Orissa, the IED has conducted 11 EDPs which have benefited 307 trainees. It also conducted four Management Development programmes, four entrepreneurship awareness camps and lecture-cum-discussion session on "Problems and prospects of Indo-US Trade and Investment". In Bihar, the IED conducted two EDPs and organized an entrepreneurs' meet during the period under review.

8.8.5 Centre for Entrepreneurship Development

The development of entrepreneurs on a systematic basis was started in 1970. A number of specialized institutions came up to provide training to various target groups that included educated unemployed persons, women, technicians, foremen, rural artisans, physically handicapped persons, etc. The Centre for Entrepreneurship Development (CED), Ahmedabad, was sponsored by the State government and public sector corporations concerned with industrial development in the State. This Centre conducts entrepreneurship development programmes. Persons are selected from amongst the employees, workers, merchants and graduates and training is imparted at six centers. The following are some of the significant features of the programme of training:

(a) Before conducting the programme of training, a survey of investment opportunity is made for identifying industries having good scope in the area:
(b) Appropriate linkage is developed with various agencies which provide support and service to entrepreneurs in getting finance, readymade sheds, raw materials and other inputs.
(c) Entrepreneurs are selected through behavioural tests. Due weightage is given on experience rather than on education or unemployment.

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(d) Programmes of training included theoretical and practical coverage, including visits to industrial units consistent with the items identified by the entrepreneurs

(e) Follow-up action is taken by the full-time project leader and individual attention is given to each entrepreneur trainee.

The success rate of CED programmes is reported to be 66 per cent.

8.8.6 The Entrepreneurial Motivation Centre

The Entrepreneurial Motivation Centre was set up in Assam in the north-eastern region of India to conduct entrepreneurial development programmes. In the initial period, 28 officers drawn from various departments of the state government were given training in entrepreneurial motivation, economic investigation and survey, management of small enterprise, etc. at the Small Industries Extension Training Institute in Hyderabad. These officers then joined the various branches of the Entrepreneurial Motivation Training Centre in six districts. The Entrepreneurial Motivation Training Centre gave wide publicity to the entrepreneurial development programmes and invited applications from educated unemployed persons. Selection was made based on psychological tests and personal interviews. Selected entrepreneurs were given preliminary motivation training of two weeks for developing or strengthening the motivation for self-employment, managerial and economic aspects of entrepreneurial development. The entrepreneurs were further assisted in selecting enterprises for themselves, conducting guided market surveys and preparing economically viable and feasible project reports. The Centre acted as a link agency and helped the entrepreneurs in obtaining finance from banks and other institutions, and readymade sheds as working space. The centre further provided 10 per cent of the sanctioned amount as seed money wherever necessary. An evaluation revealed that by March 1975, the number of entrepreneurs trained were 1,550 of which 1,053 (68 per cent) had completed their project reports and 581 were given in-plant training. Of the 310 entrepreneurs who completed the project reports, 279 (90 per cent) actually established their own enterprises and started operations.

8.8.7 The National Institute for Entrepreneurship and Small Business Development (NIESBUD)

The Government of India recognized the need for a national organization to serve as an apex body to co-ordinate the training programmes of various centres and organizations in the country, to train a large number of trainers and motivators in entrepreneurship development, to prepare a model syllabus of training for various target groups and target areas, etc. This would also accelerate training in entrepreneurship.

The New Delhi-based National Institute for Entrepreneurship and Small Business Development (NIESBUD), established by the Government of India, is an apex body for coordinating and overseeing the activities of various institutions and agencies engaged in entrepreneurship development particularly in the area of small industry and small business. Over the years, the Institute has evolved model syllabi for training various target groups – by effective training strategies, methodology, manuals and tools, facilitating and supporting Central/State governments and other agencies in executing programmes of entrepreneurship and small business development; maximizing benefit and accelerating entrepreneurship development; conducting programmes for motivators, trainers and entrepreneurs which are commonly not undertaken by other agencies. The Institute is also the secretariat of the National Entrepreneurship Development Board (NEDB), the apex body which determines policy for entrepreneurship development in the country. The Institute, therefore, performs the task of processing the recommendations made by the Board.

The NESBUD was established with the following objectives:

- to accelerate the process of entrepreneurship development ensuring its impact throughout the country and among all segments of the society
- to help/support institutions/agencies in carrying out activities relating to entrepreneurship development with greater success
- to evolve standardized process of selection, training support and sustenance to potential entrepreneurs enabling them to set up and run their enterprise successfully
- to provide information support to trainers, promoters and entrepreneurs by organizing documentation and research work relevant to entrepreneurship development,
- to provide functional forums for interaction and exchange of experiences helpful for policy formulation and modification at various levels.

The activities of the NIESBUD include:

- evolving effective training strategies and methodology
- standardizing model syllabi for training various target groups
- formulating scientific selection procedures
- developing training aids, manuals and tools
- facilitating and supporting Central/State/other agencies in executing entrepreneurship development programmes
- maximizing the benefits and accelerating the process of entrepreneurship development

The various functions which the Institute has been called upon to perform are as follows:

1. To serve as an apex national level institute.
2. To organize and conduct training programmes.
3. To coordinate the training activities of various institutes and organizations in the country imparting training in entrepreneurship.
4. To affiliate institutes and organizations conducting entrepreneurship training.
5. To identify, train and assist potential entrepreneurs amongst technical and non-technical personnel in setting up self-employment ventures in small industries including service industries.
6. To hold examinations and tests and confer certificates and diplomas on the trainers as well as trainees.
7. To undertake documentation and research in the fields of entrepreneurship and small business development.
8. To conduct workshops, seminars and conferences, etc. for promotion and development of entrepreneurship in small scale industries and small businesses.
9. To publish literature for furtherance of entrepreneurship and small business development.

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8. List the functions of NIESBUD.

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10. To provide a forum for interaction and exchange of views with agencies engaged in various aspect of entrepreneurship in small industries and small business development.
11. To assist in setting up regional and state level training institutes for entrepreneurship and small business development.

8.8.8 National Alliance of Young Entrepreneurs (NAYE)

The National Alliance of Young Entrepreneurs has made several schemes for entrepreneurs' development in collaboration with public sector banks such as Bank of India, Dena Bank, Punjab National Bank, Central Bank of India and Union Bank of India.

The objectives of the schemes are:

1. To help young entrepreneurs in identifying investment and self-employment opportunities.
2. To secure proper arrangement for their training.
3. To provide necessary financial assistance on the basis of project reports
4. To secure package of consultancy services.
5. To arrange assistance, facilities and incentives that are extended to entrepreneurs by the government and other institutions.

8.9 SUMMARY

In this unit you have learned that entrepreneurial talent can be harnessed by motivating people and making them capable of perceiving and exploiting business opportunities.

Both internal and external factors influence and motivate an entrepreneur. Internal factors are unique and external factors are common to everyone. The purpose of a development programme is to find the inherent talents of an individual in systematic course of action over a period of time. There are several objectives for conducting Entrepreneurship Development Programmes (EDPs). The main intention of EDP is to promote the talent of entrepreneurs, to utilize them in a constructive way and for building a strong sense of entrepreneurship.

Evaluation of an EDP can be judged on the basis of extent of success achieved in the realization of objectives established under EDP. MDI, EDII, STEPS, IED, NESBUD and NAYE are some of the organizations providing EDPs.

8.10 KEY TERM

- **EDP:** Stands for Entrepreneurship Development Programme. A programme designed to help a person strengthen his entrepreneurial motives and to acquire skills and abilities necessary for playing his entrepreneurial role effectively.

8.11 ANSWERS TO 'CHECK YOUR PROGRESS'

1. Motivation may be defined as a process of inspiring someone to adopt a desired course of action. In order to encourage a person to work hard for achievement of organizational objectives, his motives must be satisfied by offering incentives. An

incentive is something an individual perceives as helpful towards achieving his goals. Incentives exist to satisfy human needs.

2. Entrepreneurial motivational factors are of two types: 1) Internal Factors, which are unique in nature. 2) External Factors, which are common to everyone
3. Economic factors comprise land, labour, capital, raw material and market. Non-economic factors refer to the social climate for entrepreneurship, and the need to achieve social mobility, status and respect.
4. Provide essential knowledge about the industry, product, and production methods. Develop and strengthen entrepreneurial quality towards achieving the objectives and goals of the enterprise. Assist the entrepreneur to work effectively in his present position by exposing him to the least concept, techniques and information.
5. The process of EDP involves the following sequence: 1) Identifying prospective and right candidates. 2) Training and developing entrepreneurial capabilities. 3) Linking suitable project with each entrepreneur. 4) Equipping them with basic administrative, financial and managerial capabilities. 5) Providing follow up support in establishing the venture.
6. An entrepreneur development programme consists of three phases: 1)Pre-training phase, 2) Training phase, and 3) Post Training phase.
7. Entrepreneurial performance is a function of the following factors:

   Socio cultural background of the entrepreneur, which refers to the environment in which the entrepreneur was born and brought up. Motivational Force, which implies the motives which prompt a person to undertake entrepreneurship e.g. wealth, status, self employment Knowledge and ability of the entrepreneur, which refers to the education, training and experience of the entrepreneur; Financial Strength, which means the funds which an entrepreneur can mobilize from internal and external sources; Environmental Variables, which consist of government policies, market conditions, and availability of technology and labour situation.
8. The various functions which NESBUD performs are as follows:
   (a) to serve as an apex national level institution
   (b) to organize and conduct training programmes
   (c) to coordinate the training activities of various institutes and organizations in the country imparting training in entrepreneurship
   (d) to affiliate institutes and organizations conducting entrepreneurship training
   (e) to identify, train and assist potential entrepreneurs amongst technical and non-technical personnel in setting up self-employment ventures in small industries including service industries
   (f) to hold examinations and tests and confer certificates and diplomas on the trainers as well as trainees;
   (g) to undertake documentation and research in the fields of entrepreneurship and small business development;
   (h) to conduct workshops, seminars and conferences, etc. for promotion and development of entrepreneurship in small scale industries and in small business;
   (i) to publish literature for furtherance of entrepreneurship and small business development;

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(j) to provide a forum for interaction and exchange of view with agencies engaged in various aspects of entrepreneurship in small industries and small business development;

(k) to assist in setting up regional and state level training institutes for entrepreneurship and small business development.

8.12 QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is entrepreneurial development?
2. What is EDP?
3. State any four objectives of EDP.
4. Write a short note on MDI.
5. Write a short note on EDII.
6. What are the phases of EDP?
7. What are the internal factors in entrepreneurial motivation?
8. What are the external factors in entrepreneurial motivation?

Long-Answer Questions

1. What do you mean by development? Discuss the role and relevance of EDPs.
2. Describe the objectives and process of EDP.
3. Explain the functions of various institutions that are engaged in EDPs.
4. Evaluation of EDPs is required to strengthen the future EDPs? Discuss.

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CASE STUDIES

Case - 1 : Progress through Innovation

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Throughout history, great innovations have periodically occurred to thrust humankind for ward with new technologies, new industries, or new economic systems. These innovations were scarce prior to the 1800s, and those that we recognize had profound effects on society. Portuguese navigational instruments, for example, opened the world to rapid colonization, and Scottish steam engines and power looms vaulted us into the industrial age. American technology during the early 20th century created an industrial society founded on engines of growth such as Ford's assembly-line technology, Bell's telephone, and Edison's electronic system. in recent years, major innovations in microelectronics have thrust us into the postindustrial information age.

Many other innovations have occurred, but their significance has been forgotten along with most of their inventors. Nevertheless, efforts by a few inspired entrepreneurs have changed society in extraordinary ways. One of those was inventor and entrepreneurs Cyrus McCormick, who created a revolution in agriculture with the first mechanical reaper. He invented the reaper in 1831 and unveiled it in the Shenandoah Valley, cutting 6 acres of wheat in less time than a healthy farmer could cut one acre.

The McCormick Reaper replaced the way farmers had harvested grain for more than 2,000 years, and farm productivity was increased more than tenfold. The invention was not, however, a sudden brainstorm. The idea began with McCormick's father, who was determined to find a way to provide more food for America's growing population. He had witnessed starvation in the cities and undernourished children in townships, and the answer, in his mind, was to create a new method of harvesting food grains. Until that time, farmers would sow only what they could reap, and the amount they could reap was limited to what they could cut with a hand sickle or scythe. McCormick's father died with his dream unfulfilled, but young Cyrus pursued the idea. When the first reaper went into production, it created chaos among farmers because those who had a McCormick suddenly outproduced their neighbors by a substantial amount and could market grain at very low prices. The farmer who worked only with a scythe quickly realized that he had to accept the inevitable change and purchase a reaper or lose his farm.

However, during those early days farmers had little money, so McCormick founded International Harvester Corporation, let farmers use the reapers and pay on credit terms, and soon had sales offices in every state and territory in the country. Later, McCormick refined his credit policies and introduced installment sales with low down payments and periodic payments. This innovation in financing may have been as monumental as the invention of the reaper, and although a credit craze did not materialize, many companies such as Kraft and Wells Fargo quickly adopted credit policies. A commercial finance industry evolved several years later to provide equipment loans to manufacturers.

McCormick was an inventor-turned-entrepreneur who recognized the value of marketing, but he also hired the best people he could find with marketing and engineering talent. He encouraged them to think and act independently, and many unusual innovations were made. Prior to the Civil War, for example, the company introduced four-color advertisements and posters; these were the forerunners of billboards. Later, he created brochures to attract customers, and these evolved into mailout orders that were among the first efforts at direct marketing.

The heart of McCormick's business, however, was his line of International Harvester machinery. During 20 years spanning the reconstruction period following the Civil War, IH introduced more than 200 models of field planting and harvesting equipment. Each item was based on the simple idea that a standard model using interchangeable parts could be produced in large quantities and sold, repaired, and serviced at very low costs. This system made field repairs easy and allowed farmers to replace worn machinery parts. The idea was adopted by Samuel Colt, who used interchangeable parts in his manufacture of firearms, and the Winchester Company quickly followed. Together, their firearms became legends in western folklore.

Questions

1. Explain McCormick's experience in entrepreneurial terms based on the concepts of Adam Smith and Carl Menger.

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2. Cyrus McCormick was responsible for the first mechanical reaper and the critical idea of interchangeable parts; however, the success of McCormick is often attributed to his ability to organize a company with exceptionally talented engineers and marketers who were responsible for most of the firm's innovations. Evaluate this statement in terms of the classic idea of an entrepreneur and the concept of corporate entrepreneurship.
3. Compare McCormick's contributions that led to a revolution in agriculture with Apple Computer's introduction of the microcomputer that revolutionized how we think about information technology.

Source: *The Entrepreneurs: An American Adventure (Boston: Enterprise Media, 1987), Film No 2. Also International Harvester: A History of Invention (Chicago: International Harvester Corporation, 1964) Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no: 29-30.*

Case - 2 : Pluck or Persistence?

NOTES

When she was 11 years old, Kim Merritt sampled chocolate at a candy store and thought she could do better. She made here own recipe and began selling small candy bars in her home town of Cumberland, Maryland. The effort was much like that or many youngsters who open lemonade stands to ear a few dollars to spend at the movies; however, people began asking her for more. Using meager profits and her mother's kitchen, Kim began making large batches of candy, then designed her own wrappers and developed a commission system for friends who sold chocolates at several schools.

Business was so good that it became an obsession. Kim worked after school, weekends, and holidays, and aside from a brief period when the health department suspended her operations until she could obtain proper permits to cook candy, she made candy by hand until she graduated from high school. At first, she could meet demand without special equipment or sacrificing other activities, but when she provided candy for a school fund-raising event, demand exceeded capacity, and Kim found herself buying professional equipment, hiring helpers, and purchasing bulk supplies.

Looking back, Kim recalls the obsession, the long hours, and the challenge to learn about business. Always on the initiative, Kim set about placing orders with local stores and developing contracts with dozens of schools and civic organizations. Her business, Kim's Khocolates, soon occupied her entire family and closest friends, and she registered the company and set up a chocolate boutique. During her first month, she had 18,000 orders, and before graduating from high school, Kim was distributing specialty chocolates to retail stores in three states.

In 1989, at age 21, Kim repositioned her company as a major distributor of specialty candies and began planning a chain of upscale chocolate shops for the 1990s. The chain would complement her and manufacturing and distribution system, but it would also mean major changes in her organization. She paused to think about her plans, realizing that to launch a regional or national chain would mean a corporate endeavor. She and her family could not handle all the responsibilities, and the nature of Kim's Khocolates would change. This was not a pleasant thought, although the idea of pursuing a major business was exciting.

Reflecting on her business, Kim realized that she had had fun and made a great deal of money, but many people considered her success no more than the luck of a personable young lady who made good candies and accidentally stumbled into a few good markets. On the other hand, Kim knew that she had worked extremely hard to attract clients. Most of her customers had not been comfortable buying from a young high school student, and she was seldom taken seriously by customers until they had dealt with her for a long time. Winning over her customers had always been a challenge to Kim, not a roadblock, and creating unusual candies had been a joy, not a job.

Thinking about her plans, she was not anxious to become a corporate manager, and although she had always worked well with others, Kim liked the feeling of independence. Running a company would mean sacrificing her autonomy, yet the idea of a chain of stores selling her specialty candies had been a dream for years. At the same time, expansion would mean financial risk, and Kim had always avoided debt; she dealt in cash and had always carefully calculated her expenses to avoid even the slightest loss. She realized that she was at choice seemed to be whether to follow her dream and expand or to be content with her existing business.

Questions

1. Identify the entrepreneurial characteristics of Kim Merritt and how they correspond to characteristics described for successful entrepreneurs.
2. Take a position regarding the decision facing Kim whether to expand into a chain of stores. Explain your position in terms of personal objectives you perceive essential to Kim and in terms of her perceived abilities.

3. Based on what you know about Kim and what you believe her characteristics to be, would you say her success was due to luck or persistence? Explain your position, and how luck plays a role in any new venture.

NOTES

Source: *William Tucker, "Campus Capitalists," Success! October 1985, pp 42-49, and personal interview with Kim Merritt, Association of Collegiate Entrepreneur convention, March 1990. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no: 29-30.*

Case - 3 : Flex Banner Print Unit Project - a diversified activity to start a New Flex Banner Printing Unit in Visakhapatnam

NOTES

Visakhapatnam, an industrial town, situated at the coastal belt of Bay of Bengal. The city is famous for flex banner printing works. The applicant M/s Print Word Corporation, Visakhapatnam, is a well known in flex banner printing of number of works like wall posters, hoardings, welcome banners, invitation banners etc., is a partnership concern established in 2000. It is registered as a small scale unit engaged in printing and supplying of flex banners in different sizes on job work bases. The partners belong to noble industrial family, having experience in the field of offset printing works as well as flex banner printing works for the past two decades.

Project - Expansion

Finding the increasing demand from its existing customers, continue to be prospective, the unit has come forward to embark on the new expansion project of purchase and erection of new flex banner printing machinery. The following is an appraisal of the various salient features of the expansion project.

Technical feasibility

The unit is located at 11th cross road, Yandada, Visakhapatnam, which is a spacious and accommodative enough for the expansion project also. The unit is located in the labour intensive area of the city and hence naturally it enjoys all locational advantages on account of favourable economic factors like availability of raw materials, labour, power, transportation facilities, etc. prevailing in and around its environment. The expansion unit requires flex rollers (make with a special type of plastic sheets), ink and pigments as raw materials. All these materials are available adequately and easily without any interruption from reputed suppliers in the local market throughout the year. For this project, the required skilled labourers are available in plenty at cheaper cost. One of the **partners Mr.J is technically** experienced in the field of flex banner printing. He is familiar with all techniques involved in the flex banner printing and allied activities. Hence, he can look after, manage and guide the actual field work and command the labour towards the achievement of the aims, goals and objects of the unit.

There is no special transformer required for this expansion unit, the unit's requirement of Power shall be met out by existing surplus load available. The expansion unit's proposed requirement of one flex banner printing machine (Heidelberg Speed Motor 102ZP) is readily available from reputed suppliers in the market at competitive price.

Marketability

The unit has come forward with this expansion project in view of persisting demand from existing customers only. The unit presently enjoys a good reputation and patronaged clientele. Hence, marketing for the expansion unit is not a problem. Moreover, the expansion project is mainly aimed at executing the orders from existing customers only. The unit can further go through into the market and develop the favourable market condition through wide and popular contact, better quality control policies, competitive pricing , economic policies and direct liaison with customers through own sales force.

Project Outlay

The outlay for the new flex banner unit project is estimated to be:

(Rs. in '0000)

Cost of one imported used Multicolored flex printing machine KORLAND BBV, CB:	1438
Customs Duty on above @ 51%	733 2171
Clearing Expenses, transportation expenses and Erection Expenses	129
	2300

Means of Finance

It is proposed to meet the aforesaid estimated outlay as indicated below"

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(Rs. in '0000)

Promoters' Contribution:	780
Term Loan from Financial Institutions (70% of Rs.2171):	1520

The promoters of the unit are solvent enough to bring in adequate and required investmental funds out of their own means presently in the form of deposit with friends and relatives. The proposed term loan shall be repaid by 120 equal monthly installments with a usual holiday period of 3 months, spread over a period of 11 years.

Capacity, Performance and Profitability

Projected operational capacity and profitability and cash flow statements are submitted separately with statement of explanatory workings. A perusal of the profitability statements and the projected cash flow and Balance Sheet shall reveal that the unit's additional new unit project shall be economically viable, solvent, prosperous and technically feasible.

Explanatory Working Sheet for Projected Profitability Statement, etc.,

(i) Capacity, Performance, etc.

The unit at present owns one multicolored flex banner printing machine. Now it is proposed to import another multicolored flex banner printing machine to augment its banner printing capacity. A detailed printing capacity estimate is made as follows:

(in Rollers)

	Existing Multicolored Machine	*Proposed Multicolored Machine*
Printing capacity per hour	2.000	2.000
Less: Provision for inefficiency, setting-up time etc., 10%	0.200	0.200
Normal installed capacity per hour	1. 800	1. 800
Per shift of 8 hours	14.400	14.400
Per day of 16 hours	28.800	28.800
Normal installed capacity per annum of 300 days	8,640	8,640

Assume that the expansion project will come into installation after 1.4.2009, and then notice the variation of unit printing capacity

Before 31-03-2009 8,640 (rollers of flex)

After 1-04-2009 17,280 (rollers of flex)

Thus, the proposed installed capacity of the printing operations after the proposed expansion project shall be 17,280 rollers of flex per annum.

It is submitted that the estimated capacity is based on conservative approach only. The actual installed capacity is greater than this. Further no weightage is given for the unknown complementary machinery if any in the unit.

It is planned to utilize annually not less than 60%; 60%; 65%; 70%; 75%; and 80%; of the installed capacity during 2008-09– 2013-14 respectively.

In other words, the unit estimates to attain utilizable capacity as indicated below:

(Year ending 31st March)	2009	2010	2011	2012	2013	2014
- (in %)	60%	60%	65%	70%	75%	80%
- (in rollers)	5184	10368	11232	12096	12960	13824

(ii) Sales

For multicolored flex banner printing works, a minimum of Rs1800 per roller can be realized approximately towards sale value. Based on the capacity hypothesis the turnover for the ensuring 6 years of operation from 2008-09 shall be as follows:

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(Year ending 31st March)	2009	2010	2011	2012	2013	2014
Sales value in Rs.	9331200	18662400	20217600	21772800	23328000	24883200
Qty in rollers	(5184)	(10368)	(11232)	(12096)	(12960)	(13824)

(iii) Raw Materials Consumption

For various sizes of flex banner printing works, the major raw materials required are flex rollers (a special type of plastic coated with smooth surface) and printer multicolored cartridge ink. One kilo of ink can yield printing results of multicolored impressions on not less than 4 rollers. Therefore, for the first full year of operation not less than 2592 (i.e.10368 rollers/4) kilos of ink is required. An average rate of Rs.800/- per K.G. is to be applied to arrive at the cost of ink. Similarly, the flex roller for job work is available in the market at the rate of Rs.900 (average) per roller.

(Year ending 31st March)	2009	2010	2011	2012	2013	2014
a) flex roller value in Rs.	4665600	9331200	10108800	10886400	11664000	12441600
	(5184)	(10368)	(11232)	(12096)	(12960)	(13824)
b) Multicolored cartridge ink.	1036800	2073600	2246400	2419200	2916000	3110400
	(1296)	(2592)	(2808)	(3024)	(3240)	(3456)
	5702400	11404800	12355200	13305600	14584000	15552000

(iv) Direct Labour

With the advent of the proposed new flex banner printing machine, the unit requires the following labour at the monthly pay rates indicated against each of them.

Category	***No. of Manpower***	***Wage Rate (in Rs.)***	***Total (in Rs.)***
Printers	9	6000	54000
Skilled Workers (other then printers)	15	4000	60000
Supervisor	6	3000	18000
Feeders	10	2000	20000
Other Assistants of all category	35	1000	35000
Per month			187000
Hence per annum			2244000

The scales of pay taken for consideration are above the normal rates prevailing in the market for each type of labour. To proceed further, the labour cost for the first full year of operation is estimated as under:

Estimated wages per annum	:	22, 44,000
Add: Bonus, etc. 6 months p.a. as per local customs	:	11, 22,000
		33, 66,000

(v) Power

The unit's requirement for power shall be met out of excess load available inside the premises. Based on past experience, the estimates for the ensuring full six years of operations shall be (Rs. in '000) 95, 107, 122, 137, 152 abd 167

(vi) Manufacturing Labour charges

Manufacturing works may require positive and negative preparation, designing etc. depending upon the requirements of the customers' and nature of works which vary from to job to job.

Hence, a uniform rate cannot be adopted for these works. However, having regard to the complementary machines, available with the unit and based on past experience the estimation is provided for the successive six full years of operation shall be at the rate of (Rs. in '000) 236, 274,296,318, 340 and 362 respectively

NOTES

(vii) Interest

Term Loan: Maximum interest of 15% p.a. provided on opening rest value.

Questions

1. Explain about the significance in bring out the new Flex Banner unit by M/s Print Word Corporation, what are environmental factors supporting in promotion of new flex banner unit in Visakhapatnam
2. Describe your observations on the project outlay in consideration of procurement of raw material , man power and marketability of the new project
3. What is your opinion on this project promotion is it worth enough in the sense of profit making to the company. Can you able to assess the project with the given information or do you want some more information if like so explain what more information do you need in assessment of the project?

Case - 4 : Adityapur Industrial Area Development Authority (AIADA): A Zone of Progress

NOTES

An unrelenting commitment to industrial development and meticulous planning has transformed the Adityapur Industrial Area in Jharkhand into a preferred destination for investors. Located just 8 km from the steel city of Jamshedpur, the Adityapur Industrial Area stretches up to 12 km along the Jamshedpur Saraikeal-Kharsa wan State Highway.

The Jharkhand Department of Industries has plans to develop the Adityapur Industrial Area into a modern city providing all modern amenities for a small sized Industrial city. Two modern city centers complexes with modern amenities, markets and residential facilities are coming up soon.

The Adityapur Industrial Area Development Authority (AIADA) was established in 1972 for the purpose of promoting industrial growth. There were 50 industrial units at the time. AIADA is in the process of acquiring more land to the extent of about 2000 acres for setting up Industrial units in years to come.

Currently, there are around 1000 small, medium and large industrial units having an annual average turnover of about Rs.3, 500 crore. There are numerous residential complexes, a few markets, a few small scale hospitals and clinics, etc. within the Adityapur Industrial Area. The total investment in Adityapur is to the tune of Rs.3, 000 crore, which is increasing every year as more and more units are attracted to the fast growing region.

Adityapur Industrial Area is well connected by road, rail and air, internally too, it has well planned road network of about 45 km with adequate drainage system. The AIADA's proximity to Ranchi affords certain advantages. A network of highways and railways connects it to metropolitan cities and other important regions of the country. There is a proposal to construct an airport at Adityapur.

In order to meet the demand for high-speed Internet connectivity and cellular phone services, leading service providers such as Bharat Sanchar Nigam Limited (BSNL), Reliance, Tata Indicom and Airtel are operating in the region.

The water supply to the industrial units in sufficient quantity is done through well planned water supply system through Sitarampur reservoir with necessary pumping station, overhead water towers and network of pipelines spread over all the phases of industrial area. A special purpose company, Adityapur Utilities Limited, has been registered to undertake the responsibility of rehabilitating and augmenting the present system over a period of 15 years on the basis of public private partnership.

Uninterrupted power supply is available from the 140 MW grid sub-station located in the industrial area. Power Grid Corporation of India Limited, has also installed a 400/220 KV grid sub-station. Four sub-stations of 33/11 KV have been set up in the Industrial area to cater to the need of power as per requirement. It is expected that the private sector will play a leading role in supply and distribution of power in this region in the near future.

To facilitate further investment, in May 2008, AIADA decided to reduce the annual levy from the existing Rs.5,000 per acre to Rs.3,000, a move welcomed by medium and small scale units.

The key industries in AIADA are Heavy/light Engineering (Machining/Fabrication/ Press shop), Plastic & Rubber, Mineral Based, Ferro Casting, Chemicals, Food & Beverages, Auto Body Building/Automobiles Services, Electrical Industries, Forging Industries, Pharmaceuticals, Sponge Iron and LPG Bottling Plant.

Questions

1. As an Entrepreneur/ Investor do you prefer Adityapur Industrial Area as your destination for industry, if so explain what are the motivating factors you have observed in the industrial zone or what are demerits that drag you back not to select as the destination for investment.

2. "Industrial Zones or Industrial Estates like Adityapur Industrial Area augmenting the industries which in turn help for economic development of the particular region." Do you agree with this statement? Explain the role of industrial zones in industrialization of a particular region.

NOTES

3. What is scope for the company like Adityapur Utilities Limited in an industrial zone-Explain.

Source: *Business World, dated: 23February, 2009, pp: 61*

Case - 5 : CareerTrack on a Roll

NOTES

Entrepreneurs seldom march to the same cadence of others, and this "out of step" mindset often ends up costing entrepreneurs their jobs. Jimmy Calano had this experience early in a corporate career that ended at age 24. Together with Jeff Salzman, who left his job at age 28, the partners set up Career Track in 1982. Their corporate careers at an end, Calano and Salzman built an organization starting in Calano's bedroom that today has nearly $50 million in sales and is the leading business seminar company in the industry.

CareerTrack offers more than 3,000 seminars annually in nearly 400 cities on three continents, and the numbers are rising. The success of CareerTrack is based on astute marketing and a clear picture of the firm's customers. By pricing seminars as low as $45 rather than several hundred dollars per person, the company captured the market for women in emerging professional careers. "We gave more value at one-fourth the price," says Calano. "A lot of people price seminars according to their costs; we price our programs at what people can afford."

Among CareerTrack themes are "Image and Self-projection," "Getting Things Done," and "How to Get Results with People. "More than 500 seminar themes exist in the firm's portfolio, but when the business started, a determined effort was made to identify women in dynamic career positions. Once established, CareerTrack diversified to provide on-site seminars to large corporations, including IBM, AT&T, and General Motors. Reaching $25 milion in 1986, the entrepreneurs took aim at government agencies, including the IRS and the CIA. New themes emerged for corporate and governmental clientele, such as productivity improvement, quality performance, creativity and office system development.

Calano recalls that the company began with a vision of success that had little similarity to what it is today. "You have to understand that I was just out of college and still not entirely sure what my final grades were when Jeff and I decided to do it," Calano explains. "Jeff had been through several jobs in sales, and I had been working for a guy who did the Saturday-morning-you-are-gonna-get-rich seminars. Every Saturday we'd collect a couple of hundred bucks from 20 or 30 people eager to hear how to get ahead in real estate or stocks or something. I realized very quickly that nearly anyone could put on a seminar with a sexy message, and Jeff and I decided to do it right."

CareerTrack's first seminar for working women on "assertiveness training" was held in a Colorado hotel conference room. Calano and Salzman worked for several months researching the topic and putting the seminar together, then they decided on a $40 fee and placed several ads, and the company was born.

"The concept was to provide a valuable seminar worth $40," explains Calano, "and we felt good about what we were offering. The topic seemed obvious because no one seemed to be paying any attention to working women or their career problems. A half-day seminar on how to be more assertive in their jobs just seemed the ticket. But our so-called vision was just that to offer one seminar to working women on assertiveness and hopefully make enough to buy tacos for a week or two. We had no idea of making lots of money, running courses for IBM, or hiring people like Tom Peters to lead seminars.

"Once we realized how many people wanted quality seminars," Calano notes, opportunities seemed to be everywhere. If we had mapped out a business plan then, it would have looked like a spider web with market opportunities in every direction. College students needed and still need practical information on writing resumes and getting jobs. Women still need help negotiating for promotions and being assertive about their careers. Men need stress management. And we all need to improve our careers, our self-images, and our knowledge of the world around us. If we had not created CareerTrack, someone would have, and, in fact, a lot of companies are doing the same thing now. All we had to do in 1982 was pick a direction and go. We are still doing that."

Today, Calano and Salzman spend their time on two distinct business activities. The first, and most consuming, is market research. The second is the actual development of CareerTrack training programs. Success, in their eyes, comes from first understanding the $4 billion seminar and training industry, then planning carefully to address a distinct customer within that industry.

The firm's products evolve from a marketing base, that, today, includes films, videos, audiotapes, books, and seminars ranging to topics from "How to Survive Your college Days" to "The Masters of Excellence" by Tom Peters.

Questions

NOTES

1. Identify and discuss CareerTrack's window of opportunity. What social or economic changes occurred to create this window? Do you think the window is still open today? Explain
2. Describe the corridor principle and how it seemed to propel CareerTrack from a Saturday morning seminar to a global business.
3. Put yourself in Calano's shoes today. What opportunities exist now and for the immediate future in a similar business?

Source: *Interview with Jimmy Calano and staff at CareerTrack. Also Jimmy Calano and Jeff Salzman, CareerTracking (New York: Simon and Schuster, 1988) pp. 32-34, 95-96. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no: 62-63.*

Case - 6 : Her Own Boss

NOTES

Katherine Magrini is one of many women who own their own business, and her experience is not very different from others who must contend with being a mother, spouse, and family cheer-leader in addition to owning and operating a business. Magrini is more successful than most women (or men). She turned her first million at age 28, and ten years later she is on a $10 million annual roll.

Katherine Magrini is owner and president of Gardner Spring & Wire Company, A Chicago Corporation that markets industrial springs and spring assembly hardware. She bought the company in 1978, hocking everything she had and borrowing more than a million dollars, and although this was her first business, she had worked for Gardner (and had become its president) several years earlier while she was still in her early 20s

Magrini grew up in Drumright, Oklahoma, with five brothers. With her brothers, she started working for the Oklahoma Spring Company in sales. Her brothers eventually bought that company, expanded and bought Gardner Spring & Wire Company. Katherine Magrini was sent to Chicago to help out there, and she took the fledgling division with only $50,000 in sales to more than $400,000 in sales by opening accounts with the federal government and chains such as Ace Hardware. She recalls that she was the first woman ever to call on Ace Hardware, and during the 1970s when this growth occurred, most of her clients could not understand that a woman could sell industrial hardware.

The combination of her brothers' manufacturing business in Oklahoma and her fast paced marketing in Chicago was so successful that the family sold the business for an undisclosed but "nice" sum. With the sale, Katherine felt she had lost part of herself, and subsequently bought back the Gardner Company. During her rise to success and while recreating her independent business, she managed a family, stayed involved with school and community affairs, and after a divorce remarried to pursue a happy life-style. She does not speak much about her family except to say that the television show Dallas held no surprises for her.

In Katherine Magrini's mind, there is nothing more exhilarating than owning your own business, and for her, the fun is in the challenge of making the firm grows from a small business struggling for a foothold. Today, more and more women and making this choice rather than pursuing traditional careers. The SBA notes that for the past ten years, the number of women starting new ventures is three times as large as the number of men. There are several good reasons for this trend. Some women find that owning a business is the only way to combine a decent wage with time for their children by having the flexibility to control their schedules. Others see themselves as unlikely corporate managers, and recognizing the gender problem that exists for achieving success, they choose the entrepreneurial route. Still others see entrepreneurship as a way of controlling their lives, pursuing interests that would be impossible in corporate jobs.

There are prices to pay that many men do not have to consider. The dual roles of mother and business owner often conflict, and husbands and wives tend to develop separate career tracks that often cannot be reconciled. In Magrini's case, the price was divorce, and although failed marriages are not uncommon in America, business pressures played a significant role in dividing her loyalties. Women can also find its lonely in a business world, especially if business clients are predominately men; this too was a problem for Magrini. Many women, however, have businesses that fit well with their interests and with women customers. These include services in beauty care, women's clothing, nutrition, education, and entertainment. Nevertheless, being in business often exacts a double price for women, yet for those with determination like Katherine Magrini, the rewards can increase at an exponential rate.

Questions

1. Describe the nature of small business ownership, and tell how Katherine Magrini fits the profile of an independent entrepreneur.
2. Discuss problems facing small businesses. Contrast these with the case and discuss possible issues that women entrepreneurs like Katherine Magrini face.

NOTES

3. Identify and describe opportunities that women might find rewarding as business ventures. Also discuss the advantages and disadvantages of unusual enterprises such as the industrial spring hardware business in the case.

Source: *Susan Ochshorn, "I Am My Own Boss", Venture, July 1986, pp. 46-4. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no: 97-98.*

Case - 7 : The Company as an Environmental Tool

NOTES

Patagonia Inc., was the brainchild of Yvon Chouinard, a middle-aged sportsman and weekend rock climber who turned his interests in outdoor sports into a multimillion-dollar enterprise. Patagonia has been one of the premiere distributors of outdoor clothing and unusual sporting accessories for nearly a decade. Specializing in products such as Alpine climbing attire and tropical beach attire for Jet Skis, the company uses mail-order techniques to market to a small segment of the population able to afford extravagant prices for the highest-quality product line of its kind.

Chouinard, however, does not describe himself as an avid businessperson or an astute planner. He explains success as having defined a clear market niche, estimated what people wanted and could afford, then satisfied their interests through exquisite catalogs, advertisements, and public relations. Having accomplished his objectives of serving this market, he was ready to get out of business several years ago, " I didn't need the power of having a bigger business. I had no more reason to stay," he explained. I'd made a successful company. I'd accomplished what I set out to do.

Chouinard had always been concerned about the environment, and he was on the verge of selling his company in order to pursue his personal interests in environmental protection. "What turned me around was the discovery that I could use the company as a tool," he said. I'd never equated business with doing anything good…I'd always thought that if you re going to do something good, you do it personally".

Today, Chouinard directs the company's profits entire to environmental causes, but it is more than giving away money. The company recycles all its paper and more than 70 percent of its waste. It even has a system for recycled waste from employees' homes, and through community programs, Patagonia sponsors environmental speakers and encourages its executives to pursue clean-up efforts. This transformation in purpose has had an interesting effect on the company managers and employees not in tune with Chouinard's philosophy have left, but in their place have come more dedicated people and many high-powered executives who are there to pursue the environmental purpose of being in business. Profits have increased beyond expectations because earning more profits provides the financial strength to fund more projects. As the company has grown, its prominence has given management the added strength of political leverage.

In communities in several states where Patagonia has operating facilities, managers and employees can demand environmental action. For example, when Chouinard was contemplating locating facilities in Bozeman, Montana, he lashed out at city officials, literally blackmailing them into environmental action. "I happened to tell them they had an ugly town," he explained. When they asked him about moving there, Chouinard replied, "Well, not until you guys, get some controls over your future. I'm leaving California because we trashed the quality of life out there. I don't want to come up there and do the same goddamn thing."

Bozeman put in place campaigns to clear out strip malls, tear down billboards, organize waste recycling, and set up long-term planning for environmental protection. Chouinard has repeated this scenario several times, and the leverage of his company has paid off. His company still sells clothes and sporting accessories, and it has global markets now in two customer niches: those who want his extravagant products, and those who feel good about dealing with a company that is doing something positive about the environment.

Questions

1. Describe company mission and objectives for Patagonia during its early and recent endeavors. In your opinion, do these conflicts, or are they compatible with one another?
2. A critical part of good business planning knows why a company is in business and how it will serve its customers. Explain these issues with respect to Chouinard as an entrepreneur and with respect to his company.

3. What would you envision as requirements for Patagonia's market research activities? Financial planning activities?

Sources: *Yvon Chouinard, "Coming of Age," Inc., April 1989, pp.54. Also "Patagonia's commitment, "Yosemite Institute Insights, spring 1990, p.1. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no: 137-138.*

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Case - 8 : Putting Service on the Line

NOTES

Steven and Valerie Bursten operate their Indianapolis business, Decorating Den Systems, Inc., as a family business. Steven founded the company and set up a franchise system with a very clear idea of high-quality interior decorating services. He requires skilled and enthusiastic franchise owners capable of individualized service to clients, providing decorating consulting, a wide selection of materials, and access to name-brand furnishings. Valerie, a former TWA cabin attendant, is on the road selling franchises when she is not involved in purchasing and training. The key to the business, she insists, is training. The key to the business, she insists, is training franchises owners to create a marketing focus on distinct client groups, then helping them to develop the skills to complement their talents. Most franchise owners are women, and being a role model is important to Valerie.

In contrast to the Burstens, Nancy and Norman Peters entered business very cautiously. They opened an independent photoprocessing lab to print high-quality photos for people who needed special services not usually provided by the one-hour minilabs. The whole point of the business, Nancy says, was to supplement her husband's pension. They worked out of their home in Hendersonville, North Carolina, and set out to find customers. Expecting a good return on advertising, they placed ads in newspapers and magazines but had disappointing responses. Business trickled in, but after some months, they realized that most orders were from repeat customers and almost always for single prints that clients wanted for their own businesses or promotions. It took several months of heavy losses to realize that their potential for profitable business rested on large-account photos for commercial uses, not film and photo processing. Most orders today are for high-quality catalog sheets, postcards, brochures, and promotional materials.

The concept of David Hall and Pat Gallup, PC Connection sells an extraordinary range of accessories and equipment for all types of personal computers. Started in 1982, PC Connection initially targeted IBM PC markets, and then launched the MacConnection division to handle Apple products. After seven years, the company topped $100 million in sales. The service provided by PC Connections has made it one of the most respected firms in the business. They were the first to provide a toll-free customer service hotline with a full range of technical support. Employees who handle calls are intensively trained not only in technical details but also in customer service. You won't hear "computerese" spoken by PC Connection employees. Instead, the emphasis is on clarity of explanations and patience with customers who are, for the most part, not well versed in computer jargon. Elsewhere, a client may be told to "expect delivery in three to four weeks," a common practice of mail-order companies that do not stock inventory, only take orders, and transship products. In contrast, PC Connection will deliver overnight, guaranteed, and for a fixed price that most recently was $3 an order.

Questions

1. Identify and contrast the types of business and their markets described in the case.
2. What are the critical success factors in each business? Describe their distinctive competencies, and express your opinion about what sets them apart.
3. Identify a service-related business in your area and describe the services, customers, and characteristics that made it successful.

Sources: *"Insider," Inc., March 1989, p21; Nancy A. Peters, "Sharpen Your Focus and Aim High," Nation's Business, August 1988, p.9; and Sylvia Helm, "Perfect Partners," Venture, July 1986, pp.38-39. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp no:232-233.*

Case - 9 : Serendipity Enterprises, Inc.

NOTES

Founder Ken Blake incorporated Serendipity Enterprises, Inc. (SEI), in 1986 to take advantage of changes in the tax code. Prior to that time, SEI had been a sole proprietorship, owned and operated by Blake, a skilled printer. The enterprise evolved from a printing business in the late 1970s to become a fast-growing desktop publishing company when it was incorporated. Blake's personal skills in printing, typesetting, and graphics were enhanced by several key employees with computer skills. Example of recent SEI contracts include the graphic illustration and typesetting of a complicated chemistry book for a major publisher and creating an integrated algebra course using software and student manuals for high schools.

By incorporating, Blake found he could properly write off expenses for business use no longer allowed for a proprietorship under the 1986 tax revision. Personal health insurance, business travel expenses, and certain interest charges, for example, were treated as corporate expenses and deductions. He also established a modest salary for himself, taxable as personal income, and allowed business profits to be appropriately allocated to corporate earnings.

The major reason for incorporating, however, was to protect his family. A dispute over property in 1985 when Serendipity was still a sole proprietorship had resulted in a serious lawsuit, and although he won the suit, he realized that had the decision gone the other way, his family assets would have been at risk. With the business growing, there was a higher risk of litigation, and Blake decided to separate business and personal assets.

Shortly after incorporating, Blake also found tat he had cancer. The cancer was caught early and its spread arrested, but it gave him pause to think of how the business would be controlled in his absence. He was still a young man in his early 40s, and he had three sons. His oldest son, a junior in college, had worked in the business for several years and was skilled at desk-top work as well as graphics development. Blake's staff included an office manager and several excellent employees, but on one who could take over as the head of a corporation. Aside from management issues, Blake wondered how he could protect his family's interest. His wife and sons were minority stockholders, having acquired stock at incorporation from assets that were transferred to the company. Nevertheless, Blake realized that if he died suddenly, there would be a succession problem, and he wondered what would happen to his stock.

Questions

1. Describe the possible advantages and disadvantages for Blake by incorporating. Could a proprietorship have been more advantageous?
2. Explain the problems faced by entrepreneurs for succession. In Blake's situation, what are his options?
3. What other forms of business could Blake have chosen? Explain the possible advantages and disadvantages of each.

Source: *David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp 381-382*

Case - 10 : The Franchise Option

NOTES

Founded in 1980, Travel Agents International, Inc. (TAI), began as a regional travel agent in the heart of Florida. The company targeted a "youthful" retired market of affluent people. Most of these retirees had relocated to Florida from northern states with ample retirement incomes and the urge to travel. Looking for unusual tours and recreation opportunities, they usual tours and recreation opportunities, they represented a huge market of anxious travel customers. Most also visited their previous homes or went north to see family members.

Travel Agents International found a profitable niche among retired residents, and within two years, the company had opened several offices in resort retirement communities. With the growth in franchising, TAI reorganized in 1982 and began offering franchise offices, each networked together for an integrated travel system. the company has retained its headquarters business in Seminole, Florida, but now has nearly 300 franchise locations.

Potential franchise owners are screened on application to ensure they have sufficient resources and career interest in developing a personal service business in travel. The parent company earned $67,000 net profit on approximately $5 million in gross sales in 1988 and expected a similar financial profile into 1990s. The sales figure represented income from franchisees, not travel sales or services. The company assures potential franchise owners that this income is adequate to provide franchise services, yet represents a low profit because money is reinvested in services for new franchise owners.

The company offers franchises at a flat fee of $39,500 for a complete business package that includes training and help with initial licensing. Depending on the location of the business, the owner will have to spend between $40,200 and $87,600 to furnish an office and acquire reservations linkage through travel networks. The owner must arrange his or her own lease, or buy a location, and if the franchise is successful, the company offers "area" or master franchise options. Franchise royalty fees are expressed in a fixed monthly charge of $785 with a fixed advertising charge of $335 per month.

Prospective franchise owners are interviewed at their own expense, usually in Florida, and the company reserves the right to decline an offer to anyone they feel unsuitable for the travel business. Applicants must also provide a full disclosure of their financial position and demonstrate the ability to meet franchise costs plus projected operating costs for the first year. Franchisees buy travel supplies and subscribe to catalogs from the parent company.

Questions

1. Make a list of questions you would ask as a prospective franchise owner, and briefly explain why these questions are important.
2. Assume that a typical travel franchise office can expect a net profit after taxes of 8 percent on sales. Based on case information, what scenario can you describe for sales and profits if you bought into this franchise? Would it be a good investment? Why or why not?
3. Visit a local franchise service business with a predefined list of questions about the requirements for owning a similar franchise. These will be used for discussion and comparison in class.

Sources: *"The Franchise 100, "Venture, December 1988, pp. 42-43. Information courtesy of Travel Agents International, Inc., Seminole, Florida. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp:418..*

Case - 11 : Public Sector Programs Address Seed Capital

NOTES

Seed capital is always difficult to arrange, and it is particularly difficult for entrepreneurs who market unusual products or who have not track record to justify conventional underwriting. Recognizing this problem, public funds are being made available through several states to help new ventures. As we entered the 1990s, at least 11 states had substantial investment funds earmarked for seeding new ventures, and 14 others were considering tax-based funds or legislated control of state pension funds for this purpose.

Jack Keester is one entrepreneur who benefited from Nebraska's seed capital found. Keester had developed a new power transmission process for making electrical energy more efficient. The complex technology was not understandable to conventional lenders, and investors felt the company would be too risky. The state, however, invested $500,000 in Keester's plan in exchange for a 35 percent equity position. That was in 1987, and Keester's company, Addax, Inc., posted $700,000 in sales by 1989, proving his system effective and salable. Consequently, Addax was positioned for growth well into the 1990s, and investors put several million dollars into the company.

Similar seed capital risks have occurred elsewhere, and in Iowa, the state has poured $4.2 million into 36 new ventures since 1983. Connecticut uses a state-supported limited-partnership fund to invest in new ventures. Michigan takes a different approach by underwriting bank loans through tax-supported insurance, and West Virginia provides a 50 percent tax credit on qualified ventures. State officials who administer funds are not reluctant to help small ventures, but they tend to be more enthusiastic about entrepreneurs who have been able to attract support form other conventional or government programs.

Cheryl Mann, for example, was able to obtain an economic development grant from Virginia to establish her mushroom food-processing company in a southern rural area of the state. Mann had previously qualified for an SBA loan through the Minority Enterprise program to fund her first-year operations. When the money ran low, Mann demonstrated that her idea was still feasible, and although she had no collateral assets for extended credit, she convinced state authorities that the business would be economically viable and provide additional employment in her area.

Consider the situation of Maury Brown of Tallahassee, Florida. Brown developed an unusual method of refrigerating a small "icehouse" that could be used for storing up to 4 tons of fish. His idea was to have stand-alone small refrigerated units that severed as icehouses for rural fishing villages. Brown had come to Florida from his home in the Virgin Islands, where commercial fishermen often could not get their catches iced down soon enough to prevent spoilage. The small icehouses could be located in villages or on outer islands where electricity was nonexistent or unreliable. Brown's "iceboxes" had very little actual ice, but consisted of cooling elements that could create a frost on fresh fish. The system was operated through solar cells and storage batteries. When Brown applied for an SBIR grant in 1989, he was initially turned down, but Florida business assistance councilor suggested that he should apply for a development grant from the state and also look into federal programs that could help Brown introduce his product in developing Caribbean economies

Questions

1. Identify and describe government sponsored finance programs that Brown could consider to develop his icebox.
2. Brown and Mann are both minorities. Identify their options for state or federal support that could be beneficial. Aside from minority issues, Mann also has an unusual business. What federal assistance is available to help her with loans or business development?
3. Research your state programs and describe assistance available for new ventures or small business beyond those identified in the text.

Sources: *Abby Livingston, "State Capital," Venture, May 1989, pp. 57-62; case scenario on Cheryl Mann courtesy of Cheryl Mann and the Augusta Country Department of Economic Development, Augusta County, Virginia; SBIR review on Maury Brown courtesy of Maury Brown, January 1991. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp: 453-454.*

Case - 12 : Is Entrepreneurship Education Useful?

NOTES

For five dollars, you can own a "weather stone," one of several products being offered by a fifth-grade class at the Hunt School in Hunt, Texas. The stone is no more than a rock mounted on a small shingle that you put outside and watch. If the rock is wet, it's raining; if it's white on top, it may be snowing… and so on. The weather stone may be a tongue-incheek product, but the entrepreneurship class for fifth graders is not. Fifth and sixth graders run concession stands, organize car parks for school events, and have created several innovative board games. The class has been engaged in free enterprise education since 1983, earning as much as $40,000 a year from projects. Profits not only help underwrite new projects but also purchase new school equipment such as video machines and computers.

Entrepreneurship programs for youngsters, while applauded by many, are questioned by some educators who insist that they create mercenary instincts at the expense of fundamental education. Many children find that the stress of trying to run their own businesses is too much. Others find the reality of hard work to research, develop, and sell something too much; they prefer to study in traditional ways. Still others find they are simply not cut out to pursue entrepreneurial careers. Those who support the programs point out, however, that these results are also important to give students a broader perspective on their own career aspirations.

Similar programs for grade school youth exist in dozens of cities across the United States, and more are being introduced. At the high school level, activity is often more pronounced. More than a hundred thousand high school students are involved in special programs and courses funded through state and local economic education agencies and foundations such as the Hugh O' Brien Youth Leadership Program. One program in the South Bronx area of New York focuses on disadvantaged youth. Founded by Steve Mariotti, the South Bronx project is designed to give inner-city youth an alternative to life on the streets. Mariotti's program brings students into seminars, takes them on tours through businesses, and introduces them to local entrepreneurs who have succeeded. Students also brainstorm a project, set up the business, and actively market a product or service. They are responsible for developing their own business plans and for succeeding or failing with their projects.

All youth programs have several things in common. They require students to develop their own ideas, plan ventures, develop their products or services for commercialization, and then go to market. They do their own market research, product design, licensing, venture administration, selling, and accounting. In many instances, they also must find financial backing. Advocates point out that students learn a wide variety of new skills through applications. They are introduced to bookkeeping systems, market research methods, planning systems, and economic processes. Mariotti claims that the most important aspect of his program is the "psyche" value of becoming mentally stronger through personal involvement and self-directed activities.

Critics of these programs say that students may benefit from learning the mechanics of business, but the psychological redirection of effort toward making money is inappropriate. Young students, they say, should be out playing games and learning humanistic values; older students should be preparing themselves for careers. The controversy also involves the question whether entrepreneurship can be taught in the sense that most students simply do not have entrepreneurial personalities.

Questions

1. Discuss the concept of an entrepreneurial career and whether students can be taught to be entrepreneurs.
2. Based on what you have covered in this course, describe what you might envision as beneficial for grade school or high school students in course similar to those in the case.
3. Take a position with respect to the controversy of whether to offer youth programs in entrepreneurship. Why would you support or oppose them?

Sources: *Jeffrey O. Krasner and Jeffrey L. Seglin, "Dick and Jane Write Business Plan," Venture, March 1989, pp. 50-52. Also Steve Mariotti, "Inc., Coming of Age," Inc., April 1989, p.66. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp: 483-484.*

Case - 13 : A Minimum Effort Pays Off

NOTES

Professional Training Systems, Inc. (PTS), produces educational software on interactive videodiscs for the health care industry. Founded in 1988 by John Hayes, PTS expected sales to break the $10 million mark in 1989 and, with new product development, triple by 1992. Hayes is one of the new "minimalists" who has no aspirations of creating a managing a large organization. With fewer than 30 employees, PTS relies on strategic alliances to achieve its objectives.

Staff at PTS has two responsibilities: They conceive of and plan new products, and they establish the marketing plans to succeed. John Hayes is responsible for orchestrating the strategic alliances. For example, the company's most recent product is an interactive video series of training programs for nurses. The courseware was developed for nurses lacking formal degrees who must meet new federal regulations requiring certain demonstrated skills and education mandates. Hayes and his staff had the ability to produce the programs, but not to develop program content or to market to nurses.

To accomplish the task, Hayes formed an alliance with the American Health Care Association (AHCA), the Educational Testing Service (ETS) of Princeton, New Jersey, and a Washington federation of state nursing home groups. Course content and program development were guided by AHCA, bringing to the alliance expertise on most aspects of health care as well as years as the premiere organization concerned with health care policies on Capitol Hill. In addition, ETS is a nationwide testing service famous for administering college entrance exams, SATs, and a variety of highly reputable public and private qualifications-testing systems. The role of ETS in the alliance was to administer coursework, monitoring and recording nationwide testing results from nurse study programs. The ETS stamp of approval would prove to be an exceptionally important endorsement.

With AHCA creating the program and ETS administering it, the Washington federation of nursing homes provided the initial test markets and the launchpad for mass circulation of the courseware. It remained for Hayes's organization to produce the program, manufacture the products, and implement a marketing plan. Hayes and PTS accomplished all this with a handful of staff. Production planning and control was entirely the work of PTS, but experts were hired for video graphics, hard-copy publications, and student materials. Production, packaging, and distribution were accomplished through subcontracting.

The PTS marketing effort was coordinated by Hayes and company; AHCA was given responsibility for advertising through its monthly journals and magazines; and, in turn, the company was influential in attracting nurse organizations and nonprofit organizations to adopt the software. The Washington alliance and AHCA were also extremely well networked with health care organizations where they could encourage institutional adoptions. Thousands of organizations were reached when ETS included the program in its nationwide lists of educational services.

Questions

1. Describe the marketing objectives and the marketing plan for PTS, Inc.
2. What advantages and disadvantages do you envision for the "minimalist" approach? How does it change the role for an entrepreneur?
3. Identify a familiar product or service, and explain how a marketing effort might be established for it using strategic alliances.

Sources: *Edmund L. Andrews, "The New Minimalists," Venture, January 1989, pp 37-39. Also David H.Holt, "Entrepreneurship New Venture Creation. Prentice-Hall of India Private Limited, New Delhi, 1998, pp: 308-309.*

Case - 14 : Self Motivation leads for achievement

NOTES

Facing the challenges by a woman entrepreneur to bring the industry on to right track through her self motivation is key concept of this case. After her father was expired Suneetha a 23 year old young woman was forced to take up the charge as a sole proprietor to a Coconut (the large brown seed of a tropical palm) Quire Industry. She was a commerce graduate and survived with mother, grand-mother and two younger sisters. The industry was established by Subba Rao, father of Suneetha in the year 1985 at a village in East Godavari District of Andhra Pradesh. The basic functionalities of this Industry is to collect the Coconut Quire from the nearby villages, and make them different sizes of thread spindles or make a bundle by pressing the raw quire through machinery and export the thread spindles or raw quire bundles to West Bengal.

Subba Rao was handle this industry with great care since the establishment and earned good name from the suppliers as well as customers. The workers of the industry are continuing from the inspection of the industry, Subba Rao achieved this through his personal care towards his workers.

Subba Rao was expired in March, 1996, the Industry was became a registered small scale unit in1994 only. The unit has having a loan of RS.25 lakhs against on plant and machinery and building with State Small Industries Financial Corporation and having a working capital loan of Rs.10 lakhs with Andhra Bank Limited.

The East and West Godavari Districts were seriously affected by typhoon in November, 1997 and Coconut trees were also seriously affected. Nearly 20 to 30 percent of Coconut trees are felt down, and 30-40 per cent trees are failed for yielding to number of years. The serious affect on Coconut plantation given its impact on the industry. The industry failed to notice the unexpected situation. The serious shortage of raw material collection had shown its affect on meeting the demand of customers. The industry failed to provide work to the workers and utilizing machinery hours.

Suneetha a new entrepreneur taken this as a challenging opportunity and prepare plans to run the industry by collect the raw material from far places. And convince the workers in facing the adverse situation. Suneetha met all her supplier and said her concern towards the damage happened to them. She applied cost reduction procedure to compensate the over expenditure incurred in raw material procurement process. She took steps to convey her willing ness to clear off loans and succeed in convince the financial institution and banker's for support. The Andhra Bank Limited came forward and sanctioned Rs.5 lakhs to meet the working capital demand. By 2000 the Industry slowly reduces the collection of raw material from far places and started collection from East and West Godavari Districts. The prompt payment by the Industry attracts the suppliers. Suneetha brought the industry on to the right track by 2001; the industry started a remarkable profit after tax and interest on loans. The industry never failed to pay the loan installments against long term as well as short term loans.

Questions

1. Describe the commitment towards to face the problem by Suneetha, what are the plans she might be implemented to achieve the success.
2. What do you understand the problems with small scale unit and describe the impact of success or failure on the local area where it was excised
3. What are the present problems of women entrepreneurs? Describe the role played by women entrepreneurs in economic development.

Case - 15 : Get a "Jolt Out of Life

NOTES

Just as Coca-Cola and Pepsi were launching their new low-caffeine cola drinks to fire yet another salvo at each other, "Jolt" came along and grabbed nearly 5 percent of the giants' markets. These vents took place in 1986, when a health-conscious America was clamoring for low everything in their refreshments, yet Jolt cola was advertised as having "all the sugar and twice the caffeine" needed to give you a blast with every sip. Johnny Carson and David Letterman put Jolt into their punchlines, and health-conscious consumer groups boycotted the new drink, asking for a federal investigation to see whether caffeine levels were legal.

Jolt was founded in Rochester, New York, by Joseph Rapp and his 27-year-old son as an alternative to the "wimpy-tasting colas" on the market. They used natural cane sugar and loaded their cola drink with caffeine at a level twice as high either Coke or Pepsi (5.9 mg per ounce, just under the federal limits of6 mg per ounce). The following year, Rapp and son introduced a low-calorie alternative with NutraSweet, but with the same caffeine level as the original formula.

Although most people believed Jolt would be a short-lived fad, it has flourished. Reaching supermarket shelves and deli cooler, Jolt has national distribution, and the upstart entrepreneurs are laughing all the way to the bank. Jolt has less caffeine than regular coffee, yet it has the eye-opening zing to be a substitute. Noncoffee-drinking students find Jolt an easy way to get rolling in the morning or to energize for late-night studying.

Jolt has made it to the big time, competing with the giants whether a fad or the real thing. Meanwhile, Coke and Pepsi slug it out for market share, each controlling significant resources in distribution markets, vying for preferential contracts among the leading markers of synthetic sweeteners, and flexing their marketing muscle to gain shelf-space advantages. Both companies have the leverage to negotiate with retailers for prime shelf space, and both have the purchasing power to control their supply costs. Both also have hung financial reserves capable of sustaining a cola marketing war. Jolt is viewed like a mosquito that might get swatted if it continues to buzz around the big guys. On the other hand Jolt's entrepreneurs are not unusually concerned a little bite here and there is a $20 billion market adds up.

Questions

1. Describe Jolt's position with respect to its suppliers. Is the company vulnerable to its buyers?
2. How would you describe Jolt's competitive position with respect to the major cola companies? How could Jolt compete for customers?

Sources: *"New Markets Give Share to Jolt," Beverage Industry, January 1987, p.12. Also "Coke vs. Pepsi: Cola War Marches On," Walt Street Journal, June 3, 1987 p.3. Also David H.Ho*